SASKENERGY INCORPORATED
AND
SUBSIDIARIES

FINANCIAL STATEMENTS

December 31, 2007

SASKENERGY INCORPORATED AND SUBSIDIARIES

2007 FINANCIAL STATEMENTS

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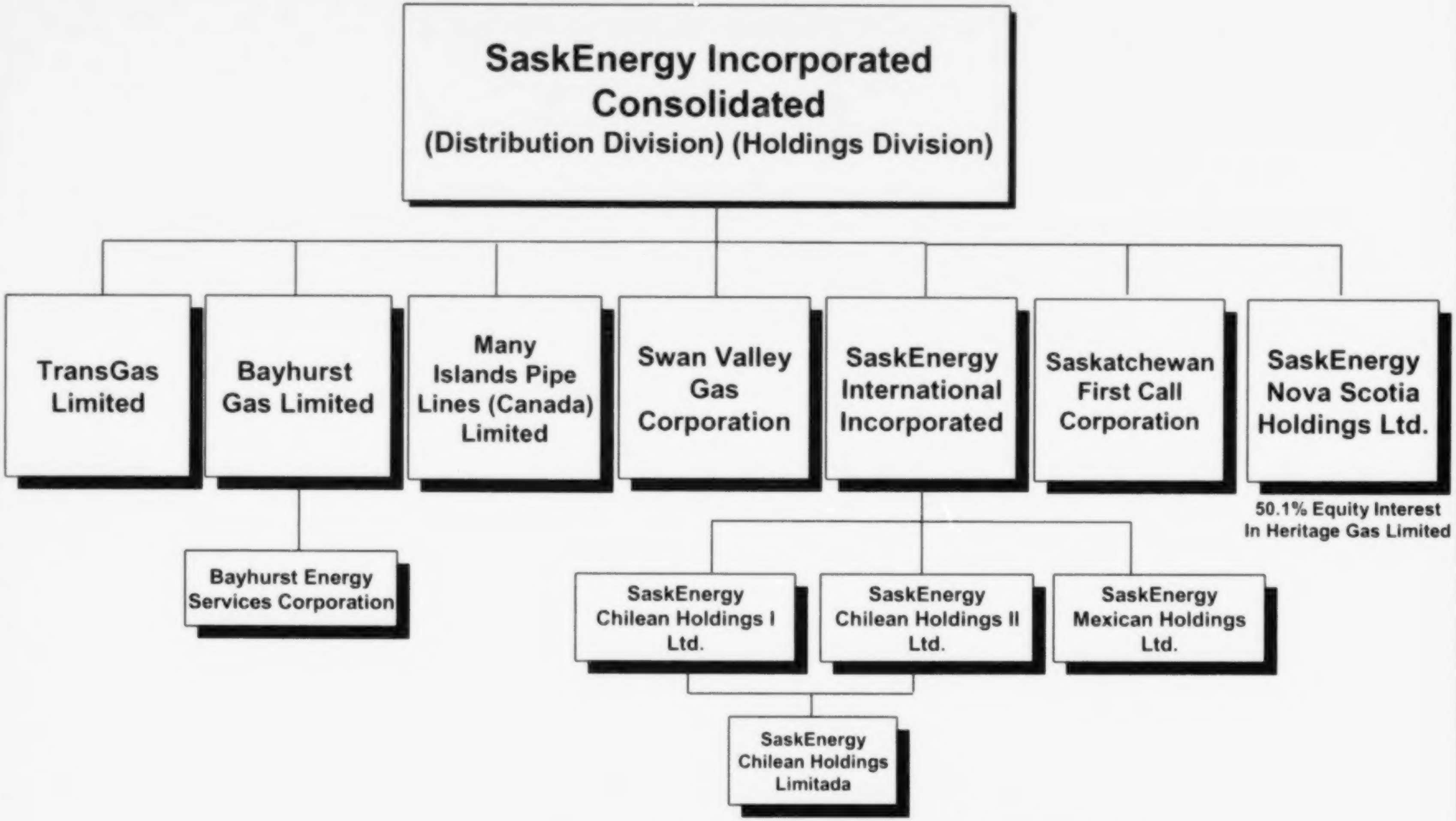
SaskEnergy Incorporated Consolidated
(Distribution Division) (Holdings Division)
TransGas Limited
Bayhurst Gas Limited
Many Islands Pipe Lines (Canada) Limited
Swan Valley Gas Corporation
SaskEnergy International Incorporated
Saskatchewan First Call Corporation
SaskEnergy Nova Scotia Holdings Ltd.
50.1% Equity Interest In Heritage Gas Limited
Bayhurst Energy Services Corporation
SaskEnergy Chilean Holdings I Ltd.
SaskEnergy Chilean Holdings II Ltd.
SaskEnergy Mexican Holdings Ltd.
SaskEnergy Chilean Holdings Limitada

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SASKENERGY INCORPORATED

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007

Deloitte

Auditors' Report

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the consolidated statement of financial position of SaskEnergy Incorporated as at December 31, 2007 and the consolidated statements of income and retained earnings, comprehensive income, accumulated other comprehensive loss and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP.

Chartered Accountants

Regina, Saskatchewan
February 15, 2008

Member of
Deloitte Touche Tohmatsu

SASKENERGY INCORPORATED
Consolidated Statement of Financial Position

As at December 31
(millions of dollars)

	2007	2006 (Restated)
Assets		
Current assets		
Cash	$ 2	$ -
Accounts receivable (Note 4)	131	139
Natural gas in storage held for resale	149	124
Inventories of supplies	13	7
Debt retirement funds (Note 5)	3	4
Fair value of derivative instruments	26	1
	324	275
Property, plant and equipment (Note 6)	978	955
Natural gas in storage held for resale and operations	36	32
Debt retirement funds (Note 5)	40	34
Investments and other assets (Note 7)	33	31
	$ 1,411	$ 1,327
Liabilities and Province's Equity		
Current liabilities		
Bank indebtedness	$ -	$ 2
Short-term debt (Note 8)	88	69
Accounts payable (Note 9)	144	138
Dividend payable	7	12
Current portion of long-term debt (Note 8)	75	48
Fair value of derivative instruments	18	14
	332	283
Long-term debt (Note 8)	633	632
	965	915
Province of Saskatchewan's equity		
Retained earnings	379	342
Accumulated other comprehensive loss (Note 10)	(5)	(2)
	374	340
Equity advances (Note 11)	72	72
	446	412
	$ 1,411	$ 1,327

Commitments and contingencies (Note 12)

(See accompanying notes)

On behalf of the Board:

Director

Director

SASKENERGY INCORPORATED
Consolidated Statement of Income and Retained Earnings

Years ended December 31
(millions of dollars)

	2007	2006
Revenue		
Commodity sales	$ **400**	$ 389
Gas marketing sales	**485**	594
Delivery	**167**	153
Transportation and storage	**88**	88
Revenue collected for municipalities (Note 14)	**24**	23
Other	**7**	7
	1,171	1,254
Expenses		
Commodity cost of gas sold	**373**	395
Gas marketing cost of gas sold	**450**	558
Operating and maintenance	**132**	121
Interest (Note 8)	**43**	44
Amortization (Note 6)	**54**	53
Payment to municipalities (Note 14)	**24**	23
Saskatchewan taxes (Note 15)	**7**	7
	1,083	1,201
Net income	**88**	53
Retained earnings, beginning of year	**342**	324
Change in accounting policy (Note 3)	**2**	-
Dividends	**(53)**	(35)
Retained earnings, end of year	$ **379**	$ 342

(See accompanying notes)

SASKENERGY INCORPORATED
Consolidated Statement of Comprehensive Income

Years ended December 31
(millions of dollars)

	2007		2006	
Net income	$	88	$	53
Other comprehensive loss				
Gains and losses on derivative instruments designated as hedges for accounting purposes in prior years transferred to net income in the current year		1		-
Unrealized losses on translating financial statements of self-sustaining foreign operations		(3)		-
Comprehensive income	$	86	$	53

SASKENERGY INCORPORATED
Consolidated Statement of Accumulated Other Comprehensive Loss

Years ended December 31
(millions of dollars)

	2007		2006	
Accumulated other comprehensive loss, beginning of year	$	(2)	$	(2)
Transitional amounts for gains and losses on derivative instruments designated as hedges for accounting purposes in prior years		(1)		-
Other comprehensive loss		(2)		-
Accumulated other comprehensive loss, end of year	$	(5)	$	(2)

(See accompanying notes)

SASKENERGY INCORPORATED
Consolidated Statement of Cash Flows

Years ended December 31
(millions of dollars)

	2007	2006
Operating Activities		
Net income	$ 88	$ 53
Add (deduct) items not requiring an outlay of cash		
Amortization	54	53
Other non-cash items - including change in fair value of derivative instruments	(23)	(1)
	119	105
Net change in non-cash working capital related to operations (Note 16)	(17)	19
Decrease in natural gas in storage - non-current	-	1
Cash provided by operating activities	102	125
Investing Activities		
Additions to property, plant and equipment	(94)	(71)
Acquisition (Note 21)	(6)	-
Additions to investments and other assets	(4)	(2)
Capital contributions received (Note 6)	23	10
Increase in natural gas in storage - non-current	(4)	(19)
Cash used in investing activities	(85)	(82)
Financing Activities		
(Decrease) increase in bank indebtedness	(2)	2
Increase (decrease) in short-term debt	19	(12)
Debt retirement fund investments	(5)	(5)
(Increase) decrease in deferred charges	(1)	1
Proceeds from long-term debt	75	39
Repayments of long-term debt (net)	(43)	(42)
Dividends paid	(58)	(28)
Cash used in financing activities	(15)	(45)
Increase (decrease) in cash during the year	2	(2)
Cash position, beginning of year	-	2
Cash position, end of year	$ 2	$ -

(See accompanying notes)

1. Status of the Corporation

SaskEnergy Incorporated (SaskEnergy) is a Saskatchewan provincial Crown corporation operating under authority of *The SaskEnergy Act*.

By virtue of *The Crown Corporations Act, 1993*, SaskEnergy has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC), a provincial Crown corporation. Accordingly, the financial results of SaskEnergy are included in the consolidated financial statements of CIC.

As a provincial Crown corporation, SaskEnergy and its wholly owned subsidiaries are not subject to Federal or Provincial income taxes in Canada.

SaskEnergy and its wholly owned subsidiaries own and operate natural gas related businesses located both within and outside Saskatchewan.

2. Summary of Significant Accounting Policies

The consolidated financial statements include the accounts of SaskEnergy (the Corporation) and its direct and indirect wholly owned subsidiaries, Bayhurst Gas Limited, Bayhurst Energy Services Corporation (and its ten wholly owned subsidiaries), Many Islands Pipe Lines (Canada) Limited, Saskatchewan First Call Corporation, SaskEnergy International Incorporated, SaskEnergy Chilean Holdings I Ltd., SaskEnergy Chilean Holdings II Ltd., SaskEnergy Mexican Holdings Ltd., SaskEnergy Nova Scotia Holdings Ltd., Swan Valley Gas Corporation, and TransGas Limited. The accounts also include the Corporation's 100 per cent ownership interest in SaskEnergy Chilean Holdings Limitada, a Chilean limited partnership and the Corporation's 50.1 per cent proportionate share of Heritage Gas Limited, accounted for as a joint venture, and the 50 per cent proportionate share of the Kisbey Gas Gathering and Processing Facility, an unincorporated joint venture.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management periodically evaluates the estimates and assumptions used based on past experience and other factors considered reasonable under the circumstances. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods. The impact of rate regulation on the application of Canadian generally accepted accounting principles is described in note 20. The following accounting policies are considered to be significant:

a. Natural gas in storage

i. Natural gas in storage held for resale

Natural gas in storage held for resale (both current and non-current) is stated at the lower of cost and net realizable value. Natural gas held for resale removed from storage is accounted for on an average cost basis.

ii. Natural gas in storage held for operations

Natural gas in storage held for operations is stated at cost.

2. Summary of Significant Accounting Policies (continued)

b. Inventories of supplies

Inventories of supplies consist primarily of pipe and general stock for construction and maintenance and are recorded at the lower of average cost or replacement cost.

c. Property, plant and equipment

Property, plant and equipment is stated at cost and includes all direct costs plus overhead charges and an allowance for interest costs related to financing construction of the related assets.

The costs of renewals and betterments which extend the economic useful life of assets are capitalized.

Retirement or sale of a major item or class of property, plant and equipment is accounted for by relieving the asset accounts of the associated cost and accumulated amortization. The difference between the proceeds and the net book value of the assets disposed is included in income for the current period.

Other asset retirements are recorded by reducing the account by the cost of the asset and charging this amount, net of proceeds received, to accumulated amortization.

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rates are as follows: (in per cent)

Transmission and storage	2.5 to 2.6
Distribution	2.5 to 3.5
Gathering, treatment and compression	2.5 to 3.5
Vehicles, equipment and other	2.5 to 50.0

Customer capital contributions relate to construction of new service connections. These contributions from customers are amortized on a straight-line basis over the estimated service life of the related asset.

d. Investments

The Corporation accounts for its investments in Gas Sur S.A. and Igasamex USA Ltd. using the equity method.

2. Summary of Significant Accounting Policies (continued)

e. Financial instruments

SaskEnergy classifies its financial instruments into one of the following categories: 1) held-for-trading, 2) held-to-maturity, 3) loans and receivables, 4) available-for-sale, and 5) other liabilities.

All financial instruments are measured at fair value upon initial recognition. The fair value of a financial instrument is the amount at which the financial instrument could be exchanged in an arm's-length-transaction between knowledgeable and willing parties under no compulsion to act.

Financial assets and liabilities classified as held-for-trading are subsequently measured at fair value with changes in fair value recognized in net income. Financial assets classified as available-for-sale are subsequently measured at fair value with changes in fair value recognized in other comprehensive income. Financial assets classified as held-to-maturity and loans and receivables as well as financial liabilities classified as other liabilities are subsequently amortized using the effective interest method. All derivatives are recognized as an asset or liability on the trade date.

Transaction costs related to held-for-trading financial assets and liabilities are expensed as incurred. For all other financial instruments, transaction costs are included in the initial carrying amount.

Cash is classified as held-for-trading. Carrying value approximates fair value due to the short-term nature of these instruments. Accounts receivable are classified as loans and receivables. Carrying value approximates fair value due to the short-term nature of these instruments. The debt retirement funds are classified as held-for-trading assets and recorded at fair value. The change in the fair value of the debt retirement funds is recognized in interest expense.

Bank indebtedness is classified as held-for-trading. Carrying value approximates fair value due to the short-term nature of these instruments. Accounts payable, short-term debt, and dividend payable are classified as other liabilities. Carrying value approximates fair value due to the short-term nature of these instruments. Long-term debt is classified as other liabilities and recorded at amortized cost. The related debt premium, discount and issue costs are included in the carrying value of the long-term debt and are recognized in interest expense using the effective interest rate method.

The Corporation uses hedge accounting for interest rate swaps used to hedge long-term debt. The effective portion of changes in the fair value is recognized in other comprehensive loss while any ineffective portion of changes in the fair value is recognized immediately in interest expense. Gains and losses are recognized in interest expense in the same period as the hedged item is settled. The Corporation uses hedge accounting for foreign currency forward contracts used to hedge capital expenditures denominated in a foreign currency. Gains or losses are recognized in other comprehensive income and reclassified to amortization expense over the life of the related capital asset. Interest rate swaps and foreign currency forward contracts are designated as cash flow hedges. As at December 31, 2007, the Corporation did not have any outstanding fair value hedges.

2. Summary of Significant Accounting Policies (continued)

Derivative financial instruments that do not qualify as a hedge and derivative financial instruments not designated as a hedge are classified as held-for trading and are recorded at fair value in the statement of financial position in current assets or current liabilities as applicable. The change in the fair value of these derivatives is recorded in net income and classified within the revenue or expense category to which they relate. The revenue and expense categories impacted are described in note 13.

SaskEnergy selected January 1, 2003 as the transition date for the identification and recognition of embedded derivatives. Accordingly, only contracts or financial instruments entered into or modified after the transition date were reviewed for embedded derivatives. The Corporation had outstanding natural gas sales contracts with embedded derivatives as at December 31, 2006 and December 31, 2007. These contracts are for non-regulated contract sales to larger end-use customers in Saskatchewan. These embedded derivatives are recorded at fair value on the statement of financial position.

The Corporation's foreign investments are self-sustaining, and the financial statements are translated from the functional currency into Canadian dollars using the current rate method. Translation adjustments resulting from changes in the exchange rate between the functional currency and the Canadian dollar are reflected in accumulated other comprehensive loss in the Province of Saskatchewan's Equity.

f. Revenue recognition

Delivery and commodity revenue is recognized when natural gas is delivered to customers. An estimate of natural gas delivered, but not billed as of December 31, is included in revenue.

Revenue from natural gas marketing is recorded upon completion of the delivery of natural gas to the customer. The Corporation acts as a principal in these natural gas marketing transactions, taking title to the natural gas purchased for resale, and assuming the risks and rewards of ownership. Changes in the fair value of outstanding gas marketing sales contracts are recorded as gains or losses in the period of change.

Revenue is recognized when transportation, transportation-related services and storage are provided to customers. An estimate of transportation, storage and related services rendered, but not billed as of December 31, is included in revenue.

Royalty revenue, included in other revenue, is recognized when natural gas is sold from wells subject to royalty agreements. Royalty revenue, accounts receivable and accrued revenue are subject to measurement uncertainty. These amounts are based on the Corporation's best information and judgment.

g. Cost of gas sold

The cost of gas sold includes the cost of purchasing natural gas in the open market, risk management derivative financial instrument settlements, fair value adjustments on outstanding risk management derivative financial and non-financial instruments, transportation, direct operating costs related to supply acquisition, and natural gas inventory carrying costs.

2. Summary of Significant Accounting Policies (continued)

h. Gas marketing

The Corporation may enter into contracts that require either the physical delivery (sale) or receipt (purchase) of natural gas in a future period.

i. Where the Corporation purchases natural gas in the open market and simultaneously enters into agreements to sell this natural gas, the fixed gain or loss is recognized when the natural gas is delivered to customers.

ii. Where the Corporation enters into natural gas contracts with no initial offsetting purchase or sale, the gain or loss on these transactions is the difference between the sales revenue recognized in the period and the average cost of natural gas required to fulfill those sales.

Changes in the fair value of the contracts due to a change in market prices up to the date of settlement are recorded as gains or losses in gas marketing sales or gas marketing cost of gas sold in the period of change.

i. Employees' future benefits

i. Pension plans

The Corporation provides pension plans for all eligible employees, including a defined contribution pension plan and a defined benefit pension plan.

Under both plans the Corporation's obligations are limited to making regular payments to the plans for current services. When made, these contributions are charged to expenses.

ii. Retiring allowance plan

The cost of future retirement allowance benefits earned by employees under this plan is actuarially determined using the projected benefit method and management's best estimates.

j. Future accounting policy changes

The Canadian Institute of Chartered Accountants (CICA) has issued new accounting recommendations for disclosure and presentation of financial instruments, Section 3862 – Financial Instruments - Disclosures and Section 3863 – Financial Instruments - Presentation, which are effective for fiscal years beginning on or after October 1, 2007. These new standards require disclosures of both qualitative and quantitative information that enables financial statement users to evaluate the nature and extent of risks arising from financial instruments to which the Corporation is exposed.

2. Summary of Significant Accounting Policies (continued)

Section 1535 – Capital Disclosures has been issued by the CICA and applies to fiscal years beginning on or after October 1, 2007. This section requires disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the Corporation's objectives, policies and processes for managing capital.

The CICA has also issued Section 3031 – Inventories, which allows inventories to be measured at the lower of cost and net realizable value or at fair value if certain criteria are met. In addition, the standard permits the use of specific identification where items are not normally interchangeable, the first-in, first-out (FIFO) method and weighted average method for costing inventory. The last-in, first-out (LIFO) method may not be used under the new standard. This standard is effective for fiscal years beginning on or after January 1, 2008. The Corporation has chosen to apply the weighted average method of cost determination for natural gas in storage, and at December 31, 2007 was examining the impact of choosing to fair value natural gas in storage at each reporting period. At December 31, 2007, the estimated impact of this decision was not yet determined. The standard may also result in major spare parts and stand-by equipment qualifying as property, plant and equipment. Any reclassification of these assets is not anticipated to have a material impact on the Corporation's financial statements.

3. Changes in Accounting Policies

Effective January 1, 2007, SaskEnergy adopted the new CICA Handbook Section 1506 – Accounting Changes in accordance with the transitional provisions of the section. Section 1506 allows for voluntary changes in accounting policy only if they result in the financial statements providing reliable and more relevant information and that new disclosures are required in respect of changes in accounting policies, changes in accounting estimates and correction of errors. The adoption of Section 1506 has had no material impact on these audited consolidated financial statements.

Effective January 1, 2007, SaskEnergy adopted the new CICA Handbook Section 1530 – Comprehensive Income, Section 3251 – Equity, Section 3855 – Financial Instruments - Recognition and Measurement, Section 3861 – Financial Instruments - Presentation and Disclosure, and Section 3865 – Hedges.

Section 1530 requires a new statement of Comprehensive Income and establishes Accumulated Other Comprehensive Income (AOCI) as a separate component of the Province of Saskatchewan's equity. The statement of comprehensive income reflects the changes in AOCI in the period. Changes in AOCI include transitional amounts for changes in the fair value of derivative instruments designated as hedges for accounting purposes in prior periods, changes in the fair value of derivative instruments designated as cash flow hedges, and the unrealized gains and losses on translating financial statements of self-sustaining foreign operations.

These new standards require retrospective adoption without restatement with the exception of the translation of self-sustaining foreign operations which requires retrospective application. The effect of this retrospective adoption was reclassification of an accumulated loss of $2 million as at December 31, 2006 from foreign currency translation adjustment to accumulated other comprehensive loss.

3. Changes in Accounting Policies (continued)

In accordance with the transitional provisions upon the adoption of the new standards, $2 million of interest rate swap settlements designated as cash flow hedges have been reclassified from investments and other assets to accumulated other comprehensive loss and will be subsequently recognized in net income over the life of the underlying long-term debt using the effective interest rate method.

The Corporation discontinued the use of hedge accounting on its natural gas derivative instruments on January 1, 2007. In accordance with the transitional rules upon the adoption of the new standards, as at January 1, 2007 $1 million of unfavourable fair value adjustments on previously designated natural gas hedges have been recorded in AOCI and will subsequently be recognized in net income in the same period the original hedged items are recognized in net income. All natural gas derivatives will settle by October 31, 2011. Changes in the fair value of these natural gas derivatives since January 1, 2007 have been recognized in net income and included with gas marketing sales, commodity cost of gas sold and gas marketing cost of gas sold.

Upon the adoption of the new standards, the impact on opening retained earnings of applying this change in accounting policy effective January 1, 2007 was as follows to recognize fair value adjustments on financial instruments held-for-trading:

	January 1 2007 (millions)
Debt retirement funds fair value adjustments	$ 2
Total assets	$ 2
Retained earnings, beginning of year	$ 2
Total liabilities and equity	$ 2

Upon the adoption of the new standards, the impact of applying this change in accounting policy effective January 1, 2007 was as follows to recognize fair value adjustments on derivative instruments held-for-trading:

	January 1 2007 (millions)
Fair value of derivative instruments - current asset	$ 17
Investments and other assets	(2)
Total assets	$ 15
Fair value of derivative instruments - current liability	$ 16
Accumulated other comprehensive loss, beginning of year	(1)
Total liabilities and equity	$ 15

3. Changes in Accounting Policies (continued)

Upon the adoption of the new standards, the impact of applying this change in accounting policy for the year ended December 31, 2007 was as follows to recognize fair value adjustments on derivative instruments held-for-trading:

	December 31 2007 (millions)
Gas marketing sales	$ 2
Commodity cost of gas sold	(8)
Increase in net income	$ 10

4. Accounts Receivable

	2007	2006
	(millions)	
Unbilled revenue	$ 79	$ 90
Trade accounts	47	46
Other accounts	5	3
	$ 131	$ 139

5. Debt Retirement Funds

Under conditions attached to certain advances from the Province of Saskatchewan's General Revenue Fund, SaskEnergy is required (on an annual basis) to invest an amount equal to one per cent of the related outstanding debt. This investment is referred to as a debt retirement fund. These debt retirement funds are administered by Saskatchewan's Ministry of Finance. The investments held in these debt retirement funds are primarily Federal and Provincial Government debt instruments. The yield on these investments was 3.8 per cent for 2007 (5.7 per cent for 2006). Debt retirement funds are held-for-trading assets and are recorded at fair value on the statement of financial position.

Amounts required to be invested in the debt retirement fund in each of the next five years are as follows: (millions)

2008	2009	2010	2011	2012
$ 6	$ 6	$ 6	$ 5	$ 5

Debt retirement funds were previously recorded in long-term debt. For the current year, along with comparative figures, the balance of debt retirement funds has been reclassified to assets according to the current and long-term portions.

6. Property, Plant and Equipment

	2007			2006		
	(millions)					
	Cost	**Accumulated Amortization**	**Net Book Value**	**Cost**	**Accumulated Amortization**	**Net Book Value**
Transmission and storage	$ **678**	$ **226**	$ **452**	$ 657	$ 207	$ 450
Distribution	**709**	**228**	**481**	656	210	446
Gathering, treatment and compression	**168**	**71**	**97**	158	66	92
Vehicles, equipment and other	**180**	**101**	**79**	170	97	73
Franchise acquisition costs	**2**	-	**2**	2	-	2
Royalty interest	-	-	-	6	6	-
Construction in progress	**17**	-	**17**	23	-	23
	$ **1,754**	$ **626**	**1,128**	$ 1,672	$ 586	1,086
Less:						
Unamortized customer capital contributions			**150**			131
			$ **978**			$ 955

a. Customer capital contributions

Customer capital contributions are required to be paid by customers to SaskEnergy to aid in construction of certain customer-specific facilities in accordance with established business policies.

	2007	2006
	(millions)	
Balance, beginning of year	$ **131**	$ 124
Contributions received	**23**	10
Amortization of contributions	**(4)**	(3)
Balance, end of year	$ **150**	$ 131

6. Property, Plant and Equipment (continued)

b. Amortization

	2007	2006
	(millions)	
Amortization of property, plant and equipment	$ 58	$ 56
Amortization of customer capital contributions	(4)	(3)
	$ 54	$ 53

The composite rate of amortization (excluding the effect of customer capital contributions amortization) was 3.4 per cent during 2007 (3.5 per cent during 2006).

7. Investments and Other Assets

Investments and other assets are as follows:

	2007		2006	
	Amount (millions)	Per cent Ownership	Amount (millions)	Per cent Ownership
a. Equity investments				
i. Gas Sur S.A.				
Initial investment	$ 14	30.0	$ 14	30.0
Accumulated equity earnings	3		2	
Foreign currency translation adjustment	(2)		(1)	
	15		15	
ii. Igasamex USA Ltd.				
Initial investment	11	40.1	11	40.1
Accumulated equity earnings	2		1	
Foreign currency translation adjustment	(3)		(1)	
	10		11	
	25		26	
b. Other receivables	8		5	
	$ 33		$ 31	

7. Investments and Other Assets (continued)

Equity investments:

i. Gas Sur S.A.

The Corporation's 30.0 per cent share of Gas Sur S.A.'s 2007 net income was $1 million (2006 - $1 million). The Corporation's share of the foreign currency translation adjustment for 2007 resulted in a $1 million reduction in the balance of the investment in Gas Sur S.A. (2006 - $1 million reduction). The cost of the investment exceeded the Corporation's underlying share of the net book value of Gas Sur S.A. by approximately $5 million (2006 - $5 million).

ii. Igasamex USA Ltd.

The Corporation's 40.1 per cent share of Igasamex USA Ltd.'s 2007 net income was $1 million (2006 - $1 million). The Corporation's share of the foreign currency translation adjustment related to the investment in Igasamex USA Ltd. for 2007 resulted in a $2 million reduction in the balance of the investment in Igasamex USA Ltd. (2006 – no increase or decrease). The cost of the investment exceeded the Corporation's underlying share of the net book value of Igasamex USA Ltd. by approximately $5 million (2006 - $5 million).

8. Long-Term and Short-Term Debt

	2007		2006	
Years to Maturity	Principal Outstanding (millions)	Average Fixed Interest Rate (per cent)	Principal Outstanding (millions)	Average Fixed Interest Rate (per cent)
Province of Saskatchewan				
1 - 5	$ 244	7.1	$ 242	7.5
6 - 10	214	4.7	188	4.9
11 - 15	34	6.7	34	6.7
16 - 35	210	6.9	210	6.9
	702		674	
Unamortized premium/discount and issue costs	(1)		(2)	
Less due within one year	(75)		(48)	
Due to Province of Saskatchewan	626		624	
Other	7	9.7	8	8.5
	$ 633		$ 632	

The effective interest rate on long-term debt was 6.3 per cent.

Debt premium, discount and issue costs were previously recorded in long-term assets. For the current year, along with comparative figures, the balance of debt premium, discount and issue costs have been reclassified to long-term debt.

8. Long-Term and Short-Term Debt (continued)

a. Maturity dates

Maturity dates are equivalent to interest rate repricing dates.

b. Principal repayments

Principal repayments due in each of the next five years are as follows: (millions)

2008	2009	2010	2011	2012
$ 75	$ 39	$ 80	$ -	$ 50

c. Short-term debt

During 2007, the Corporation borrowed funds on a short-term basis from the Province of Saskatchewan's General Revenue Fund at an average interest rate of 4.3 per cent (2006 - 4.0 per cent).

Short-term debt at December 31, 2007 consists of $88 million (2006 - $69 million) that was due to the Province of Saskatchewan's General Revenue Fund with an interest rate of 3.9 per cent (2006 - 4.2 per cent).

d. Interest expense

Interest expense was as follows:

	2007	2006
	(millions)	
Interest expense on long-term debt	$ 44	$ 46
Interest expense on short-term debt	2	2
Amortization of debt premium/discount and issue costs	1	1
Debt retirement fund earnings	(2)	(2)
Interest allocation to commodity cost of gas sold	(2)	(3)
	$ 43	$ 44

Cash interest paid during 2007 on long-term debt was $44 million (2006 - $46 million).

9. Accounts Payable

	2007	2006
	(millions)	
Supplier payables	$ 77	$ 89
Interest payable	12	12
Other payables	55	37
	$ 144	$ 138

10. Accumulated Other Comprehensive Loss

The balance in accumulated other comprehensive loss consists of the following:

	2007	2006
	(millions)	
Unrealized losses on translating financial statements of self-sustaining foreign operations	$ (5)	$ (2)

11. Equity Advances

The Corporation does not have share capital. However, the Corporation has received advances from CIC to form its equity capitalization. The advances reflect an equity investment in the Corporation by CIC.

12. Commitments and Contingencies

a. Guarantees

SaskEnergy has granted a guarantee related to certain obligations established under the Gas Sur S.A. Shareholders' Agreement. The guarantee is expressly limited to $5 million (United States dollars).

b. Letters of credit

i. The Corporation, through its subsidiary SaskEnergy Mexican Holdings Ltd., has posted a $4 million (United States dollar denominated) letter of credit in favour of Scotiabank Inverlat S.A., a Mexican bank. The letter of credit is used as collateral for the Corporation's share of a line of credit issued to Igasamex USA Ltd. Scotiabank Inverlat S.A. may draw upon this letter of credit if Igasamex USA Ltd. defaults under the terms of its loan agreement with Scotiabank Inverlat S.A.

ii. The Corporation has posted a $10 million letter of credit with NGX Financial Inc. (NGX) as security for natural gas purchase and sales transactions conducted by SaskEnergy on the NGX natural gas exchange in Alberta. NGX may draw on the letter of credit if SaskEnergy fails to make timely payment for, or delivery of natural gas as per the related contract.

12. Commitments and Contingencies (continued)

c. Leases

Lease payments are as follows: (millions)

2008	2009	2010	2011	2012	Thereafter	Total
$ 3	$ 2	$ 2	$ 2	$ -	$ -	$ 9

13. Financial Instruments and Risk Management

a. Fair value of financial instruments

The fair value of the Corporation's financial instruments is listed below:

	2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(millions)			
Long-term debt	$ 709	$ 798	$ 682	$ 779
Debt retirement funds	43	43	38	40

The fair values of the above instruments were based on the following:

i. Long-term debt – The present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.

ii. Debt retirement funds – The market value of the investments held in the debt retirement fund as determined by Saskatchewan's Ministry of Finance as at December 31.

b. Natural gas derivative instruments

The fair value of natural gas derivative instruments held-for-trading is calculated daily and is based on quoted market prices. For physical natural gas contracts notional values are an approximation of future net cash flows based on contract price multiplied by contract quantity. For other derivative financial instruments, the notional value is the difference between the contract price and the market price. Where contract prices are referenced to an index price that has not yet been fixed, the market price at December 31 has been used to estimate the contract price. In 2007, all derivative assets and liabilities held-for-trading are recorded on the statement of financial position at fair value.

13. Financial Instruments and Risk Management (continued)

As at December 31, 2007, natural gas derivative instruments held-for-trading had the following fair values, notional values and maturities.

	2008	2009	2010	2011	2012	Total
			(millions)			
Physical natural gas contracts						
Fair value	$ (3)	$ 1	$ -	$ -	$ -	$ (2)
Notional value	(241)	(8)	5	4	-	(240)
Natural gas price swaps						
Fair value	4	4	5	-	-	13
Notional value	4	4	5	-	-	13
Natural gas price options						
Fair value	(3)	-	-	-	-	(3)
Notional value	(3)	-	-	-	-	(3)
Total						
Fair value	$ (2)	$ 5	$ 5	$ -	$ -	$ 8
Notional value	$ (240)	$ (4)	$ 10	$ 4	$ -	$ (230)

Fair value - increase (decrease)
Notional value - estimated net cash inflow (outflow)

At December 31, 2006, derivative financial instruments had a total fair value decrease of $8 million.

The fair values of other financial instruments, including accounts receivable, bank indebtedness, short-term debt, accounts payable and dividend payable approximate their carrying values due to the short-term nature of the instruments.

13. Financial Instruments and Risk Management (continued)

The change in fair value of financial assets and liabilities is recorded in net income within the relevant revenue or expense category. For the year ended December 31 the impact on net income of these unrealized gains and losses was as follows:

	2007	2006
	(millions)	
Gas marketing sales	**$ 8**	$ 2
Commodity cost of gas sold	**(18)**	9
Gas marketing cost of gas sold	**6**	-
Increase (decrease) in net income	**$ 20**	$ (7)

c. Risk management

The Corporation uses various derivative financial instruments to manage the risks associated with its operating exposures to fluctuations in foreign currency exchange rates, interest rates and the price of natural gas. A Corporate Derivatives Policy and specific risk management strategies establish the guidelines within such derivative financial instruments may be used.

i. Natural gas price risk

The Corporation may manage the risk associated with the purchase and sale price of natural gas. The purchase or sale price of natural gas may be fixed within the contract, or referenced to a floating index price. When the price is referenced to a floating index price, natural gas derivative instruments may be used to fix the settlement amount. The types of natural gas derivative instruments SaskEnergy uses for price risk management include natural gas price swaps, options, swaptions and futures contracts.

ii. Foreign currency exchange and interest rate risk

The Corporation uses derivative financial instruments to manage the interest rate risk on anticipated borrowing requirements and the foreign currency exchange rate on foreign currency denominated transactions. For the purpose of managing interest rate risk, the Corporation may use forward rate agreements, options, and interest rate swaps. For the purpose of managing the exchange rate risk on transactions denominated in foreign currency, SaskEnergy may use currency forwards and currency options.

13. Financial Instruments and Risk Management (continued)

iii. Credit risk

The Corporation extends credit to its customers in the normal course of business and is at risk of loss in the event of non-performance by counterparties on certain of the financial instruments described above. To reduce its credit risk, SaskEnergy has established policies and procedures to monitor and limit the amount of credit extended to its customers and counterparties. At December 31, 2007 the maximum credit exposure to a single counterparty was $8 million (2006 - $5 million).

Derivative credit risk arises from the possibility that a counterparty to a contract fails to perform according to the terms and conditions of that contract. Derivative credit risk is minimized by dealing with large, credit-worthy counterparties in accordance with established credit approval policies.

14. Revenue Collected For and Paid to Municipalities

a. Natural gas distribution

In accordance with the provisions of *The SaskEnergy Act*, SaskEnergy is required to remit to 109 urban municipalities an amount calculated as either five per cent or three per cent of natural gas sales to customers within the respective municipality. These municipal payments are charged to customers and reported as revenue collected for municipalities. These amounts are remitted to the respective municipalities and reported as payments to municipalities on the statement of income. In 2007, revenue collected and paid to municipalities was $21 million (2006 - $20 million).

b. Natural gas transmission

In accordance with the provisions of *The SaskEnergy Act*, TransGas Limited (TransGas) is required to collect, from specific customers, an amount based on the value of natural gas transported on their behalf. TransGas in turn pays the revenue collected to those municipalities. The revenue collected is classified as revenue collected for municipalities, and the amount paid is classified as payments to municipalities on the statement of income. In 2007, revenue collected and paid to municipalities was $3 million (2006 - $3 million).

15. Saskatchewan Taxes

	2007 (millions)	2006
Corporate capital tax	$ 5	$ 5
Mitigation payments and property taxes	2	2
	$ 7	$ 7

The above amounts do not include Saskatchewan Provincial Sales Tax payments.

16. Net Change in Non-Cash Working Capital

	2007	2006
	(millions)	
Accounts receivable	$ 8	$ 45
Natural gas in storage held for resale	(25)	28
Inventories of supplies	(6)	-
Accounts payable	6	(54)
	$ (17)	$ 19

17. Related Party Transactions

Included in these consolidated financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties).

Routine operating transactions with these related parties are settled at exchange amounts which approximate prevailing market prices under normal trade terms. Transactions during the year, and amounts outstanding at year end, are as follows:

	2007	2006
	(millions)	
Revenue	$ 49	$ 48
Operating expenses	29	28
Customer capital contributions	14	5
Accounts receivable	2	3
Accounts payable	1	1

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Province of Saskatchewan on all of its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts and transactions due to and from related parties and the terms of settlement are described separately in these financial statements and the notes thereto.

18. Support for La Ronge Natural Gas Service Project

On December 4, 2006 the Government of Saskatchewan approved an appropriation of $7 million (titled - "SaskEnergy Incorporated Vote 77") to establish support for the La Ronge Natural Gas Service Project. The funding is required to support a SaskEnergy project to extend natural gas service to La Ronge and Weyakwin in north-central Saskatchewan. This funding was to supplement an investment made by SaskEnergy and contributions by residential and commercial customers. Funding from the General Revenue Fund, a related party, was received in 2007.

19. Employee Future Benefits

a. Pension plans

Employees of the Corporation are members of either a defined contribution or a defined benefit pension plan. During the year, the Corporation contributed $4 million (2006 - $3 million) on behalf of employees for current services.

b. Retiring allowance plan

The amounts related to the defined benefit retiring allowance plan for executive, management employees and members of the Communications, Energy and Paperworkers Union (CEP), Local 649 are as follows:

	2007	2006
	(millions)	
Accrued benefit liability	**$ 16**	$ 14
Benefits paid during the year	**1**	1
Net expense	**3**	2

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit liability at December 31 are:

	2007	2006
Discount rate	**5.0 per cent**	4.5 per cent
Inflation rate	**2.5 per cent**	2.5 per cent
Average remaining employee service life	**9.0 years**	11.4 years

For employees who are members of the CEP, the length of service earned for the purpose of the retiring allowance plan is equal to their service up to and including December 31, 2004 less service time converted to other employee benefits. Remaining entitlements, if any, under the retiring allowance plan will be paid out to CEP members upon their retirement in accordance with the terms of the plan.

19. Employee Future Benefits (continued)

For management employees, the length of service earned for the purpose of the retiring allowance plan is equal to their service up to and including December 31, 2005. Entitlements under the retiring allowance plan will be paid out to management employees upon their retirement in accordance with the terms of the plan.

20. Rate Regulation

The impact of rate regulation on the application of Canadian generally accepted accounting principles as it relates to the regulated operations of the following entities is as follows:

a. SaskEnergy Incorporated – Distribution Division (SaskEnergy)

By virtue of legislation, SaskEnergy has the exclusive authority to sell and distribute natural gas within Saskatchewan. In accordance with an Order-in-Council, the rates charged to customers for both the sale of the commodity and the distribution of natural gas are subject to review by the Saskatchewan Rate Review Panel (SRRP). The Provincial Cabinet has the authority to establish SaskEnergy's commodity and delivery rates and accordingly takes into consideration recommendations from the SRRP.

Based on the foregoing rate-setting process, revenue recognition policies for commodity and delivery revenue are as described in note 2f. SaskEnergy's delivery revenue was $158 million for 2007 (2006 - $146 million) and commodity revenue was $395 million for 2007 (2006 - $386 million).

Cost of gas sold is accounted for in accordance with the policy described in note 2g.

For those commodity sales subject to the rate-setting process described above, commodity rates charged to customers are based on the principle that SaskEnergy neither realizes a gain nor incurs a loss on sales of natural gas. Accordingly, SaskEnergy maintains a record of the differences between commodity revenue and cost of natural gas sold and accumulates these differences in a notional account referred to as the Gas Cost Variance Account (GCVA). The rate-setting process contemplates the balances reflected in the GCVA being recovered from or refunded to customers through future rate decisions of the Provincial Cabinet.

In accordance with the foregoing rate-setting process, commodity revenue is reflected in these financial statements based on the rates approved by the Provincial Cabinet applying the accounting policies described in note 2f. The amounts accumulated in the GCVA are not reflected in these financial statements.

The Provincial Cabinet requires that the amounts in the GCVA be audited annually by the Provincial Auditor.

20. Rate Regulation (continued)

b. TransGas Limited (TransGas)

By virtue of legislation, TransGas has the exclusive authority to transport natural gas within Saskatchewan. Accordingly, the Provincial Cabinet has the authority to set transportation rates charged to shippers. Transportation rates are not subject to review by the SRRP.

Based on the foregoing rate-setting process, revenue recognition policies for transportation revenue are as described in note 2f. TransGas transportation revenue was $66 million for 2007 (2006 - $72 million).

c. Many Islands Pipe Lines (Canada) Limited (MIPL)

The business activities of MIPL are regulated by the National Energy Board.

Revenue recognition policies for MIPL transportation revenue are as described in note 2f. MIPL transportation revenue was $1 million for 2007 (2006 - $2 million).

d. Swan Valley Gas Corporation (SVGC)

The business activities of SVGC are regulated by the Manitoba Public Utilities Board. SVGC's delivery revenue was $1 million for 2007 (2006 - $1 million) and commodity revenue was $1 million for 2007 (2006 - $1 million).

e. Heritage Gas Limited (Heritage Gas)

The business activities of Heritage Gas are regulated by the Nova Scotia Utility and Review Board (NSUARB). The following is a description of the effects of regulation on Heritage Gas as they relate to the Corporation's 50.1 per cent interest:

i. Return on rate base

Heritage Gas is allowed to earn a return on its rate base intended to provide its shareholders with a fair return on investment and to cover the cost of interest expense on debt. The rate base is the aggregate of Heritage Gas' investment in property, plant and equipment, revenue deficiency account and deferred charges, less accumulated amortization, plus working capital excluding the interest free loan from the Province of Nova Scotia. The return is based on Heritage Gas' regulated capital structure as approved by the NSUARB.

ii. Regulatory process – delivery tariff

Heritage Gas' delivery tariffs are determined through a General Tariff Application (GTA) process which establishes the revenue requirement and the rates to be charged to various customer classes as approved by the NSUARB. The GTA process completed in 2007 established the revenue requirement and rates to be charged for the period January 1, 2007 to December 31, 2011.

20. Rate Regulation (continued)

iii. Revenue deficiency account (RDA)

Heritage Gas has approval from the NSUARB to use an RDA until it is fully recovered. The RDA changes based on the difference between the actual revenue billed and the weather normalized revenue required to earn the rates of return approved by the NSUARB. During Heritage Gas' customer development stage, it is expected that the actual revenue billed will be less than the revenue required to earn the approved rates of return and therefore an RDA asset will accumulate.

As the distribution network matures, the actual revenue billed is expected to exceed the revenue required to earn the approved rates of return and, the RDA will be drawn down. Heritage Gas projects to fully recover its RDA by 2021.

The RDA as at December 31, 2007 was $9 million (December 31, 2006 was $5 million). The effect of the RDA accumulation was to increase revenue in 2007 by $3 million (2006 - $2 million).

iv. Allowance for funds used during construction (AFUDC)

Heritage Gas capitalizes an imputed carrying cost on assets under construction. The calculation method and rate of AFUDC have been approved by the NSUARB.

v. Operating expenses

The NSUARB has approved the capitalization of operating and maintenance expenses. If Heritage Gas was not subject to rate regulation, certain of these amounts would not be capitalized.

vi. Income and other taxes

Heritage Gas follows the taxes payable method of accounting for income taxes. Provision is only made for those income taxes currently payable and no future tax is recorded on timing differences between accounting and taxable income.

21. Joint Ventures

The following amounts have been included in these consolidated financial statements with respect to the Corporation's 50.1 per cent proportionate share of Heritage Gas Limited, accounted for as a joint venture, and its 50 per cent proportionate share of the Kisbey Gas Gathering and Processing Facility, an unincorporated joint venture:

a. Consolidated statement of financial position

	2007 (millions)	2006
Current assets	$ 4	$ 2
Property, plant and equipment	43	26
Regulatory receivable	8	5
Current liabilities	(6)	(3)
Investment in joint ventures	$ 49	$ 30

b. Consolidated statement of income

	2007 (millions)	2006
Revenue	$ 10	$ 6
Expenses	(6)	(4)
Income from joint ventures	$ 4	$ 2

c. Consolidated statement of cash flows

	2007 (millions)	2006
Cash provided by (used in) operating activities	$ 1	$ (1)
Cash used in investing activities	(11)	(9)
Decrease in cash	$ (10)	$ (10)

22. Acquisition

On November 1, 2007, the Corporation acquired 50 per cent of an existing natural gas processing plant and gathering system, the Kisbey Gas Gathering and Processing Facility. This plant is operated through an unincorporated joint venture. The purchase price of $6 million was allocated to property, plant and equipment.

23. Comparative Figures

Certain of the prior year's figures have been reclassified to conform with the current year's presentation.

SASKENERGY INCORPORATED
DISTRIBUTION DIVISION

FINANCIAL STATEMENTS

December 31, 2007

Deloitte

Auditors' Report

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the statement of financial position of the SaskEnergy Incorporated – Distribution Division as at December 31, 2007 and the statements of income and retained earnings, comprehensive income, accumulated other comprehensive income and cash flows for the year then ended. These financial statements are the responsibility of the Distribution Division's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Distribution Division as at December 31, 2007, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP.

Chartered Accountants

Regina, Saskatchewan
February 15, 2008

SASKENERGY INCORPORATED
DISTRIBUTION DIVISION
Statement of Financial Position

As at December 31
(thousands of dollars)

	2007	2006
Assets		
Current assets		
Accounts receivable (Note 4)	$ 113,730	$ 126,161
Natural gas in storage held for resale	78,061	85,858
Fair value of derivative instruments	22,819	507
Inventories of supplies	10,819	5,747
Intercompany accounts receivable	8,053	8,157
Debt retirement funds (Note 5)	3,012	3,744
	236,494	230,174
Property, plant and equipment (Note 6)	420,732	408,345
Debt retirement funds (Note 5)	11,977	11,909
	$ 669,203	$ 650,428
Liabilities and Holdings Division's Equity		
Current liabilities		
Bank indebtedness	$ 87,895	$ 63,804
Accounts payable (Note 7)	96,117	102,141
Fair value of derivative instruments	17,257	13,810
Dividend payable	6,411	3,500
Intercompany accounts payable	8,730	7,548
Current portion of notes payable to Holdings Division (Note 8)	45,537	37,254
	261,947	228,057
Notes payable to Holdings Division (Note 8)	206,353	242,442
	468,300	470,499
Holdings Division's equity		
Retained earnings	32,607	12,979
Accumulated other comprehensive income (Note 9)	1,346	-
	33,953	12,979
Equity advances (Note 10)	166,950	166,950
	200,903	179,929
	$ 669,203	$ 650,428

Commitments and contingencies (Note 11)

(See accompanying notes)

On behalf of the Board:

Director

Director

SASKENERGY INCORPORATED
DISTRIBUTION DIVISION
Statement of Income and Retained Earnings

Years ended December 31
(thousands of dollars)

	2007	2006
Revenue		
Commodity sales	$ 395,343	$ 386,039
Gas marketing sales	376,298	461,505
Delivery	166,926	155,314
Revenue collected for municipalities (Note 13)	21,313	20,542
Other	2,586	2,283
	962,466	1,025,683
Expenses		
Commodity cost of gas sold	375,369	415,393
Saskatchewan Energy Share	-	(20,530)
Net commodity cost of gas sold	375,369	394,863
Gas marketing cost of gas sold	369,349	450,848
Operating and maintenance	81,173	71,976
Transportation and storage	37,490	36,377
Amortization (Note 6)	25,537	25,261
Interest (Note 8)	15,651	17,126
Payments to municipalities (Note 13)	21,313	20,542
Saskatchewan taxes (Note 14)	3,015	3,330
	928,897	1,020,323
Net income	33,569	5,360
Retained earnings, beginning of year	12,979	11,119
Change in accounting policy (Note 3)	1,118	-
Dividends	(15,059)	(3,500)
Retained earnings, end of year	$ 32,607	$ 12,979

(See accompanying notes)

SASKENERGY INCORPORATED
DISTRIBUTION DIVISION
Statement of Comprehensive Income

Years ended December 31
(thousands of dollars)

	2007	2006
Net income	$ 33,569	$ 5,360
Other comprehensive income		
Gains and losses on derivative instruments designated as hedges for accounting purposes in prior years transferred to net income in the current year	6,185	-
Comprehensive income	$ 39,754	$ -

SASKENERGY INCORPORATED
DISTRIBUTION DIVISION
Statement of Accumulated Other Comprehensive Income

Years ended December 31
(thousands of dollars)

	2007	2006
Accumulated other comprehensive income, beginning of year	$ -	$ -
Transitional amounts for gains and losses on derivative instruments designated as hedges for accounting purposes in prior years	(4,839)	-
Other comprehensive income	6,185	-
Accumulated other comprehensive income, end of year	$ 1,346	$ -

(See accompanying notes)

SASKENERGY INCORPORATED
DISTRIBUTION DIVISION
Statement of Cash Flows

Years ended December 31
(thousands of dollars)

	2007	2006
Operating Activities		
Net income	$ 33,569	$ 5,360
Add (deduct) items not requiring an outlay of cash		
Amortization	25,537	25,261
Other non-cash items- including change in fair value of derivative instruments	(17,091)	13,362
	42,015	43,983
Net change in non-cash working capital related to operations (Note 15)	10,418	30,179
Cash provided by operating activities	52,433	74,162
Investing Activities		
Additions to property, plant and equipment	(43,538)	(32,656)
Capital contributions received (Note 6)	5,614	4,601
Cash used in investing activities	(37,924)	(28,055)
Financing Activities		
Decrease in equity advances from Holdings Division (Note 9)	-	(16,500)
Increase (decrease) in bank indebtedness	24,091	(10,424)
Issue of notes payable to Holdings Division	10,000	-
Repayment of notes payable to Holdings Division	(37,254)	(17,043)
Increase in deferred charges	(552)	-
Debt retirement fund redemptions	3,744	-
Debt retirement fund investments	(2,390)	(2,140)
Dividends paid	(12,148)	-
Cash used in financing activities	(14,509)	(46,107)
Increase in cash during the year	-	-
Cash position, beginning of year	-	-
Cash position, end of year	$ -	$ -

(See accompanying notes)

1. Status of the Corporation

SaskEnergy Incorporated (SaskEnergy) is a Saskatchewan provincial Crown corporation operating under authority of *The SaskEnergy Act*.

By virtue of *The Crown Corporations Act, 1993*, SaskEnergy has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC), a provincial Crown corporation. Accordingly, the financial results of SaskEnergy are included in the consolidated financial statements of CIC.

As a provincial Crown corporation, SaskEnergy and its wholly owned subsidiaries are not subject to Federal or Provincial income taxes in Canada.

SaskEnergy has the legislated franchise right to distribute natural gas in Saskatchewan.

There are two separate divisions (business units) within SaskEnergy. These financial statements reflect only the results of operations of the natural gas distribution utility referred to as the Distribution Division, the Corporation or SaskEnergy. The other division is referred to as the Holdings Division.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management periodically evaluates the estimates and assumptions used based on past experience and other factors considered reasonable under the circumstances. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods. The impact of rate regulation on the application of Canadian generally accepted accounting principles is described in note 19. The following accounting policies are considered to be significant:

a. Natural gas in storage held for resale

Natural gas in storage held for resale is stated at the lower of cost and net realizable value. Natural gas held for resale removed from storage is accounted for on an average cost basis.

b. Inventories of supplies

Inventories of supplies consist primarily of pipe and general stock for construction and maintenance and are recorded at the lower of average cost or replacement cost.

c. Property, plant and equipment

Property, plant and equipment is stated at cost and includes all direct costs plus overhead charges and an allowance for interest costs related to financing construction of the related assets.

The costs of renewals and betterments which extend the economic useful life of assets are capitalized.

2. Summary of Significant Accounting Policies (continued)

Retirement or sale of a major item or class of property, plant and equipment is accounted for by relieving the asset accounts of the associated cost and accumulated amortization. The difference between the proceeds and the net book value of the assets disposed is included in income for the current period.

Other asset retirements are recorded by reducing the account by the cost of the asset and charging this amount, net of proceeds received, to accumulated amortization.

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rates are as follows: (in per cent)

Distribution		Buildings	4.0
- Stations	3.0	Leasehold improvements	Lease term
- Mains (urban)	2.5	Computers	
- Services (urban)	3.3	- Hardware	20.0 to 33.3
- Meters	3.5	- Software	10.0 to 20.0
- Mains and services		Vehicles, tools and equipment	8.0 to 11.1
(rural)	2.5	Furniture and fixtures	4.0

The estimated average service lives are based on formal studies with annual reviews for reasonableness. The results will be applied on a prospective basis. During 2007, a third-party study was conducted. The estimated impact is a reduction of approximately $2,600 thousand to amortization expense and an increase to net income for the year ended December 31, 2008.

Customer capital contributions relate to construction of new service connections. These contributions from customers are amortized on a straight-line basis over the estimated service life of the related asset.

d. Financial instruments

SaskEnergy classifies its financial instruments into one of the following categories: 1) held-for-trading, 2) held-to-maturity, 3) loans and receivables, 4) available-for-sale, and 5) other liabilities.

All financial instruments are measured at fair value upon initial recognition. The fair value of a financial instrument is the amount at which the financial instrument could be exchanged in an arm's-length-transaction between knowledgeable and willing parties under no compulsion to act.

Financial assets and liabilities classified as held-for-trading are subsequently measured at fair value with changes in fair value recognized in net income. Financial assets classified as available-for-sale are subsequently measured at fair value with changes in fair value recognized in other comprehensive income. Financial assets classified as held-to-maturity and loans and receivables as well as financial liabilities classified as other liabilities are subsequently amortized using the effective interest method. All derivatives are recognized as an asset or liability on the trade date.

2. Summary of Significant Accounting Policies (continued)

Transaction costs related to held-for-trading financial assets and liabilities are expensed as incurred. For all other financial instruments, transaction costs are included in the initial carrying amount.

Cash is classified as held-for-trading. Carrying value approximates fair value due to the short-term nature of these instruments. Accounts receivable and intercompany accounts receivable are classified as loans and receivables. Carrying value approximates fair value due to the short-term nature of these instruments. The debt retirement funds are classified as held-for-trading assets and recorded at fair value. The change in the fair value of the debt retirement funds is recognized in interest expense.

Bank indebtedness is classified as held-for-trading. Carrying value approximates fair value due to the short-term nature of these instruments. Accounts payable, intercompany accounts payable and dividend payable are classified as other liabilities. Carrying value approximates fair value due to the short-term nature of these instruments. Notes payable to Holdings Division is classified as other liabilities and recorded at amortized cost. The related debt premium, discount and issue costs are included in the carrying value of the notes payable to Holdings Division and are amortized into interest expense using the effective interest rate method.

Derivative financial instruments that do not qualify as a hedge and derivative financial instruments not designated as a hedge are classified as held-for trading and are recorded at fair value in the statement of financial position in current assets or current liabilities as applicable. The change in the fair value of these derivatives is recorded in net income and classified within the revenue or expense category to which they relate. The revenue and expense categories impacted are described in note 12.

SaskEnergy selected January 1, 2003 as the transition date for the identification and recognition of embedded derivatives. Accordingly, only contracts or financial instruments entered into or modified after the transition date were reviewed for embedded derivatives. The Corporation had outstanding natural gas sales contracts with embedded derivatives as at December 31, 2006 and December 31, 2007. These contracts are for non-regulated contract sales to larger end-use customers in Saskatchewan. These embedded derivatives are recorded at fair value on the statement of financial position.

e. Revenue recognition

Delivery and commodity sales revenue is recognized when natural gas is delivered to customers. An estimate of natural gas delivered, but not billed as of December 31, is included in revenue.

Revenue from natural gas marketing is recorded upon completion of the delivery of natural gas to the customer. The Corporation acts as a principal in these natural gas marketing transactions, taking title to the natural gas purchased for resale, and assuming the risks and rewards of ownership. Changes in the fair value of outstanding gas marketing sales contracts are recorded as gains or losses in the period of change.

2. Summary of Significant Accounting Policies (continued)

f. Cost of gas sold

The cost of gas sold includes the cost of purchasing natural gas in the open market, risk management derivative financial instrument settlements, fair value adjustments on outstanding risk management derivative financial and non-financial instruments, transportation, direct operating costs related to supply acquisition, and natural gas inventory carrying costs.

g. Gas marketing

The Corporation may enter into contracts that require either the physical delivery (sale) or receipt (purchase) of natural gas in a future period.

i. Where the Corporation purchases natural gas in the open market and simultaneously enters into agreements to sell this natural gas, the fixed gain or loss is recognized when the natural gas is delivered to customers.

ii. Where the Corporation enters into natural gas contracts with no initial offsetting purchase or sale, the gain or loss on these transactions is the difference between the sales revenue recognized in the period and the average cost of natural gas required to fulfill those sales.

Changes in the fair value of the contracts due to a change in market prices up to the date of settlement are recorded as gains or losses in gas marketing sales or gas marketing cost of gas in the period of change.

h. Employees' future benefits

i. Pension plans

The Corporation provides pension plans for all eligible employees, including a defined contribution pension plan and a defined benefit pension plan.

Under both plans the Corporation's obligations are limited to making regular payments to the plans for current services. When made, these contributions are charged to expenses.

ii. Retiring allowance plan

The cost of future retirement allowance benefits earned by employees under this plan is actuarially determined using the projected benefit method and management's best estimates.

2. Summary of Significant Accounting Policies (continued)

i. Future accounting policy changes

The Canadian Institute of Chartered Accountants (CICA) has issued new accounting recommendations for disclosure and presentation of financial instruments, Section 3862 – Financial Instruments - Disclosures and Section 3863 – Financial Instruments - Presentation, which are effective for fiscal years beginning on or after October 1, 2007. These new standards require disclosures of both qualitative and quantitative information that enables financial statement users to evaluate the nature and extent of risks arising from financial instruments to which the Corporation is exposed.

Section 1535 – Capital Disclosures has been issued by the CICA and applies to fiscal years beginning on or after October 1, 2007. This section requires disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the Corporation's objectives, policies and processes for managing capital.

The CICA has also issued Section 3031 – Inventories, which allows inventories to be measured at the lower of cost and net realizable value or at fair value if certain criteria are met. In addition, the standard permits the use of specific identification where items are not normally interchangeable, the first-in, first-out (FIFO) method and weighted average method for costing inventory. The last-in, first-out (LIFO) method may not be used under the new standard. This standard is effective for fiscal years beginning on or after January 1, 2008. The Corporation has chosen to apply the weighted average method of cost determination for natural gas in storage, and at December 31, 2007 was examining the impact of choosing to fair value natural gas in storage at each reporting period. At December 31, 2007, the estimated impact of this decision was not yet determined. The standard may also result in major spare parts and stand-by equipment qualifying as property, plant and equipment. Any reclassification of these assets is not anticipated to have a material impact on the Corporation's financial statements.

3. Changes in Accounting Policies

Effective January 1, 2007, SaskEnergy adopted the new CICA Handbook Section 1506 – Accounting Changes in accordance with the transitional provisions of the section. Section 1506 allows for voluntary changes in accounting policy only if they result in the financial statements providing reliable and more relevant information and that new disclosures are required in respect of changes in accounting policies, changes in accounting estimates and correction of errors. The adoption of Section 1506 has had no material impact on these audited financial statements.

Effective January 1, 2007, SaskEnergy adopted the new CICA Handbook Section 1530 – Comprehensive Income, Section 3251 – Equity, Section 3855 – Financial Instruments - Recognition and Measurement, Section 3861 – Financial Instruments - Presentation and Disclosure, and Section 3865 – Hedges.

Section 1530 requires a new statement of Comprehensive Income and establishes Accumulated Other Comprehensive Income (AOCI) as a separate component of the Province of Saskatchewan's equity. The statement of comprehensive income reflects the changes in AOCI in the period. Changes in AOCI include transitional amounts for changes in the fair value of derivative instruments designated as hedges for accounting purposes in prior periods, and changes in the fair value of derivative instruments designated as cash flow hedges. These new standards require retrospective adoption without restatement.

3. Changes in Accounting Policies (continued)

The Corporation discontinued the use of hedge accounting on its natural gas derivative instruments on January 1, 2007. In accordance with the transitional rules upon the adoption of the new standards, as at January 1, 2007 $4,839 thousand of unfavourable fair value adjustments on previously designated natural gas hedges have been recorded in AOCI and will subsequently be recognized in net income in the same period the original hedged items are recognized in net income. All natural gas derivatives will settle by October 31, 2011. Changes in the fair value of these natural gas derivatives since January 1, 2007 have been recognized in net income and included with gas marketing sales, commodity cost of gas sold and gas marketing cost of gas sold.

Upon the adoption of the new standards, the impact on opening retained earnings of applying this change in accounting policy effective January 1, 2007 was as follows to recognize fair value adjustments on financial instruments held-for-trading:

	January 1 2007 (thousands)
Debt retirement funds fair value adjustments	$ 602
Total assets	$ 602
Notes payable to Holdings Division effective interest rate amortization adjustment	$ (516)
Retained earnings, beginning of year	1,118
Total liabilities and equity	$ 602

Upon the adoption of the new standards, the impact of applying this change in accounting policy effective January 1, 2007 was as follows to recognize fair value adjustments on derivative instruments held-for-trading:

	January 1 2007 (thousands)
Fair value of derivative instruments - current asset	$ 6,760
Total assets	$ 6,760
Fair value of derivative instruments - current liability	$ 11,599
Accumulated other comprehensive loss, beginning of year	(4,839)
Total liabilities and equity	$ 6,760

3. Changes in Accounting Policies (continued)

Upon the adoption of the new standards, the impact of applying this change in accounting policy for the year ended December 31, 2007 was as follows to recognize fair value adjustments on derivative instruments held-for-trading:

	December 31 2007 (thousands)
Gas marketing sales	$ (158)
Commodity cost of gas sold	(7,826)
Gas marketing cost of gas sold	233
Interest expense	95
Increase in net income	$ 7,340

4. Accounts Receivable

	2007 (thousands)	2006
Unbilled revenue	**$ 71,597**	$ 82,796
Trade accounts	**40,226**	41,485
Other accounts	**1,907**	1,880
	$ 113,730	$ 126,161

5. Debt Retirement Funds

The Corporation has received long-term debt from the Province of Saskatchewan's General Revenue Fund. The terms and conditions of this debt require (on an annual basis) the investment of an amount equal to one per cent of the related outstanding debt. This investment is referred to as a debt retirement fund. The yield on these investments was 3.8 per cent for 2007 (5.7 per cent for 2006).

Amounts required to be invested in the debt retirement fund in each of the next five years are as follows: (thousands)

2008	2009	2010	2011	2012
$ 2,190	$ 1,940	$ 1,940	$ 1,940	$ 1,940

Debt retirement funds were previously recorded in long-term debt. For the current year, along with comparative figures, the balance of debt retirement funds has been reclassified to assets according to the current and long-term portions.

6. Property, Plant and Equipment

	2007			2006		
	(thousands)					
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Mains and services	$ 564,080	$ 189,495	$ 374,585	$ 542,245	$ 174,645	$ 367,600
Regulator stations	66,082	21,789	44,293	62,213	19,874	42,339
Metering	38,237	16,385	21,852	37,340	15,468	21,872
Computer systems	30,508	15,064	15,444	28,999	17,317	11,682
Vehicles, equipment	39,230	20,660	18,570	35,978	20,137	15,841
Tools, buildings and furniture	36,973	13,731	23,242	35,117	12,019	23,098
	$ 775,110	$ 277,124	497,986	$ 741,892	$ 259,460	482,432
Less:						
Unamortized customer capital contributions			77,254			74,087
			$ 420,732			$ 408,345

a. Customer capital contributions

Customer capital contributions are required to be paid by customers to SaskEnergy to aid in construction of certain customer-specific facilities in accordance with established business policies.

	2007	2006
	(thousands)	
Balance, beginning of year	$ 74,087	$ 71,801
Contributions received	5,614	4,601
Amortization of contributions	(2,447)	(2,315)
Balance, end of year	$ 77,254	$ 74,087

6. Property, Plant and Equipment (continued)

b. Amortization

	2007	2006
	(thousands)	
Amortization of property, plant and equipment	$ 27,984	$ 27,576
Amortization of customer capital contributions	(2,447)	(2,315)
	$ 25,537	$ 25,261

The composite rate of amortization (excluding the effect of customer capital contributions amortization) was 3.8 per cent during 2007 (3.8 per cent during 2006).

Included in distribution assets is an amount net of amortization of 3,086 thousand (2006 - $2,989 thousand) paid to TransGas Limited (an affiliate) as a contribution in aid of construction of certain pipeline facilities. Amortization expense related to this amount in 2007 was $104 thousand (2006 - $103 thousand).

7. Accounts Payable

	2007	2006
	(thousands)	
Supplier payables	$ 56,908	$ 78,713
Other payables	39,209	23,428
	$ 96,117	$ 102,141

8. Notes Payable to Holdings Division

	2007		2006	
Years to Maturity	Principal Outstanding (thousands)	Average Fixed Interest Rate (per cent)	Principal Outstanding (thousands)	Average Fixed Interest Rate (per cent)
1 - 5	**$ 61,571**	**7.8**	$ 98,825	7.5
6 - 10	**60,000**	**4.7**	50,000	4.8
11 - 30	**133,971**	**6.2**	133,971	6.7
	255,542		282,796	
Unamortized discount/issue costs	**(3,652)**		(3,100)	
Less due within one year	**(45,537)**		(37,254)	
	$ 206,353		$ 242,442	

The effective interest rate on notes payable to Holdings Division was 6.5 per cent.

Debt discount and issue costs were previously recorded in long-term assets. For the current year, along with comparative figures, the balance of debt discount and issue costs have been reclassified to notes payable to Holdings Division.

a. Maturity dates

Maturity dates are equivalent to interest rate repricing dates.

b. Principal repayments

Principal repayments due in each of the next five years are as follows: (thousands)

2008	2009	2010	2011	2012
$ 45,537	$ 16,034	$ -	$ -	$ -

8. Notes Payable to Holdings Division (continued)

c. Interest expense

Interest expense was as follows:

	2007	2006
	(thousands)	
Interest on notes payable to Holdings Division	**$ 16,483**	$ 18,854
Interest on bank indebtedness	**2,085**	2,060
Amortization of discount/issue costs	**68**	133
Interest capitalized	**(167)**	(110)
Debt retirement fund earnings	**(632)**	(789)
Interest allocation to commodity cost of gas sold	**(2,186)**	(3,022)
	$ 15,651	$ 17,126

Cash interest paid during 2007 on notes payable to Holdings Division was $16,789 thousand (2006 - $19,230 thousand).

9. Accumulated Other Comprehensive Income

The balance in accumulated other comprehensive income consists of the following:

	2007	2006
	(thousands)	
Transitional amounts for gains and losses on derivative instruments designated as hedges for accounting purposes in prior periods	**$ 1,346**	$ -

10. Equity Advances

The Distribution Division does not have share capital. However, the Distribution Division has received equity advances from the Holdings Division to provide its equity capitalization. The advances reflect an equity investment in the Distribution Division by the Holdings Division.

The Distribution Division did not refund equity to the Holdings Division during 2007 (2006 - $16,500 thousand).

11. Commitments and Contingencies

a. Letter of credit

The Corporation has posted a $10,000 thousand letter of credit with NGX Financial Inc. (NGX) as security for gas purchase and sales transactions conducted by SaskEnergy on the NGX natural gas exchange in Alberta. NGX may draw on the letter of credit if SaskEnergy fails to make timely payment for, or delivery of natural gas as per the related contract.

12. Financial Instruments and Risk Management

a. Fair value of financial instruments

The fair value of the Corporation's financial instruments is listed below:

	2007		2006	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
	(thousands)			
Notes payable to Holdings Division	**$ 255,542**	**$ 284,881**	$ 282,795	$ 314,673
Debt retirement funds	**14,989**	**14,989**	15,653	16,255

The fair values of the above instruments were based on the following:

i. Notes payable to Holdings Division – The present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.

ii. Debt retirement funds – The market value of the investments held in the fund as at December 31.

b. Natural gas derivative instruments

The fair value of natural gas derivative instruments held-for-trading is calculated daily and is based on quoted market prices. For physical natural gas contracts notional values are an approximation of future net cash flows based on contract price multiplied by contract quantity. For other derivative financial instruments, the notional value is the difference between the contract price and the market price. Where contract prices are referenced to an index price that has not yet been fixed, the market price at December 31 has been used to estimate the contract price. In 2007, all derivative asset and liabilities held-for-trading are recorded on the statement of financial position at fair value.

12. Financial Instruments and Risk Management (continued)

As at December 31, 2007, natural gas derivative instruments held-for-trading had the following fair values, notional values and maturities.

	2008	2009	2010	2011	Total
			(thousands)		
Physical natural gas contracts					
Fair value	$ (3,626)	$ 440	$ 287	$ 202	$ (2,697)
Notional value	(266,929)	4,710	4,749	4,010	(253,460)
Natural gas price swap					
Fair value	1,729	4,041	5,785	(18)	11,537
Notional value	1,729	4,041	5,785	(18)	11,537
Natural gas price options					
Fair value	(3,277)	-	-	-	(3,277)
Notional value	(2,804)	-	-	-	(2,804)
Total					
Fair value	$ (5,174)	$ 4,481	$ 6,072	$ 184	$ 5,563
Notional value	$ (268,004)	$ 8,751	$ 10,534	$ 3,992	$ (244,727)

Fair value - increase (decrease)

Notional value - estimated net cash inflow (outflow)

At December 31, 2006 derivative financial instruments had a fair value decrease of $15,946 thousand.

The fair values of other financial instruments (accounts receivable, intercompany accounts receivable, bank indebtedness, accounts payable, dividend payable, and intercompany accounts payable) approximate their carrying values due to the short term nature of these instruments.

The change in fair value of financial assets and liabilities is recorded in net income within the relevant revenue or expense category. For the year ended December 31 the impact on net income of these unrealized gains and losses was as follows:

	2007	2006
	(thousands)	
Gas marketing sales	$ **6,700**	$ 1,917
Commodity cost of gas sold	**(17,851)**	9,386
Gas marketing cost of gas sold	**7,253**	(434)
Interest expense	**95**	-
Increase (decrease) in net income	$ **17,203**	$ (7,035)

12. Financial Instruments and Risk Management (continued)

c. Risk management

The Corporation uses various derivative financial instruments to manage the risks associated with its operating exposures to fluctuations in the price of natural gas. A Corporate Derivatives Policy and specific risk management strategies establish the guidelines within which such derivative financial instruments may be used.

i. Natural gas price risk

The Corporation may manage the risk associated with the purchase and sale price of natural gas. The purchase or sale price may be fixed within the contract, or referenced to a floating index price. When the price is referenced to a floating index price, natural gas derivative instruments may be used to fix the settlement amount. The types of natural gas derivative instruments SaskEnergy uses for price risk management may include natural gas price swaps, options, swaptions, and futures contracts.

ii. Credit risk

The Corporation extends credit to its customers in the normal course of business and is at risk of loss in the event of non-performance by counterparties on certain of the financial instruments described above. To reduce its credit risk, SaskEnergy has established policies and procedures to monitor and limit the amount of credit extended to its customers and counterparties.

13. Revenue Collected for and Paid to Municipalities

In accordance with the provisions of *The SaskEnergy Act*, SaskEnergy is required to remit to 109 urban municipalities an amount calculated as either five percent or three percent of natural gas sales to customers within the respective municipality. These municipal payments are charged to customers and reported as revenue collected for municipalities. These amounts are remitted to the respective municipalities and reported as payments to municipalities on the statement of income.

14. Saskatchewan Taxes

Saskatchewan taxes include the following:

	2007	2006
	(thousands)	
Corporate capital tax	$ 2,819	$ 3,144
Property tax	196	186
	$ 3,015	$ 3,330

The above amounts do not include Saskatchewan Provincial Sales Tax payments.

15. Net Change in Non-Cash Working Capital

	2007	2006
	(thousands)	
Accounts receivable	$ 12,431	$ 71,298
Natural gas in storage held for resale	7,797	48,803
Intercompany accounts receivable	104	(2,575)
Inventories of supplies	(5,072)	519
Accounts payable	(6,024)	(86,476)
Intercompany accounts payable	1,182	(1,390)
	$ 10,418	$ 30,179

16. Related Party Transactions

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

a. Related party transactions with the Holdings Division and the Corporation's subsidiary corporations were as follows:

	2007	2006
	(thousands)	
Transportation and storage	$ 36,973	$ 36,118
Interest expense	17,691	19,957
Gas marketing sales	4,564	-
Delivery revenue	9,097	8,992
Other revenue	2,102	2,683
Commodity cost of gas sold	1,986	2,147
Gas marketing cost of gas sold	54,049	15,191
Sale of property, plant and equipment	7	38
Fair value of derivative instruments - current asset	342	-
Fair value of derivative instruments - current liability	601	-

These items have been recorded at their exchange amounts. Amounts outstanding at year end have been shown as intercompany accounts receivable and intercompany accounts payable on the statement of financial position.

16. Related Party Transactions (continued)

b. Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties).

These transactions, and amounts outstanding at year end, are as follows:

	2007	2006
	(thousands)	
Revenue	**$ 29,441**	$ 26,542
Operating expenses	**18,488**	19,187
Accounts receivable	**1,719**	2,665
Customer capital contributions	**1,179**	658
Accounts payable	**406**	127

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Province of Saskatchewan on all of its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts and transactions due to and from related parties and the terms of settlement are described separately in these financial statements and the notes thereto.

17. Support for LaRonge Natural Gas Service Project

On December 4, 2006 the Government of Saskatchewan approved an appropriation of $7,000 thousand (titled - "SaskEnergy Incorporated Vote 77") to establish support for the LaRonge Natural Gas Service Project. The funding is required to support a SaskEnergy project to extend natural gas service to LaRonge and Weyakwin in north-central Saskatchewan. This funding was to supplement an investment made by SaskEnergy and contributions by residential and commercial customers. Funding from the General Revenue Fund, a related party, was received in 2007. The Distribution Division is obligated to pay TransGas Limited, a subsidiary, $15,897 thousand for its share of the project.

18. Employees' Future Benefits

a. Pension plans

Employees of the Corporation are members of either a defined contribution or a defined benefit pension plan. During the year, the Corporation contributed $2,738 thousand (2006 - $2,318 thousand) on behalf of employees for current services.

b. Retiring allowance plan

The amounts related to the defined benefit retiring allowance plan for executive, management employees and members of the Communications, Energy and Paperworkers Union (CEP), Local 649 are as follows:

	2007	2006
	(thousands)	
Accrued benefit liability	**$ 11,523**	$ 10,269
Benefits paid during the year	**790**	816
Net expense	**2,045**	1,385

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit liability at December 31 are:

	2007	2006
Discount rate	**5.0 per cent**	4.5 per cent
Inflation rate	**2.5 per cent**	2.5 percent
Average remaining employee service life	**9.0 years**	11.5 years

For employees who are members of the CEP, the length of service earned for the purpose of the retiring allowance plan is equal to their service up to and including December 31, 2004 less service time converted to other employee benefits. Remaining entitlements, if any, under the retiring allowance plan will be paid out to CEP members upon their retirement in accordance with the terms of the plan.

For management employees, the length of service earned for the purpose of the retiring allowance plan is equal to their service up to and including December 31, 2005. Entitlements under the retiring allowance plan will be paid out to management employees upon their retirement in accordance with the terms of the plan.

19. Rate Regulation

The impact of rate regulation on the application of Canadian generally accepted accounting principles as it relates to the regulated operations of SaskEnergy is as follows:

By virtue of legislation, SaskEnergy has the exclusive authority to sell and distribute natural gas within Saskatchewan. In accordance with an Order-in-Council, the rates charged to customers for both the sale of the commodity and the distribution of natural gas are subject to review by the Saskatchewan Rate Review Panel (SRRP). The Provincial Cabinet has the authority to establish SaskEnergy's commodity and delivery rates and accordingly takes into consideration recommendations from the SRRP.

Based on the foregoing rate-setting process, revenue recognition policies for commodity sales and delivery revenue are as described in note 2e. SaskEnergy's delivery revenue was $166,926 thousand for 2007 (2006 - $155,314 thousand) and commodity revenue was $395,343 thousand for 2007 (2006 - $386,039 thousand).

Commodity cost of gas sold is accounted for in accordance with the policy described in note 2f.

For those commodity sales subject to the rate-setting process described above, commodity rates charged to customers are based on the principle that SaskEnergy neither realizes a gain nor incurs a loss on sales of natural gas. Accordingly, SaskEnergy maintains a record of the differences between commodity sales revenue and commodity cost of natural gas sold and accumulates these differences in a notional account referred to as the Gas Cost Variance Account (GCVA). The rate-setting process contemplates the differences reflected in the GCVA being recovered from or refunded to customers through future rate decisions of the Provincial Cabinet.

In accordance with the foregoing rate-setting process, commodity sales revenue is reflected in these financial statements based on the rates approved by the Provincial Cabinet applying the accounting policies described in note 2. The amounts accumulated in the GCVA are not reflected in these financial statements.

The Provincial Cabinet requires that the amounts in the GCVA be audited annually by the Provincial Auditor.

20. Comparative Figures

Certain of the prior year amounts have been reclassified to conform to the current year's presentation.

SASKENERGY INCORPORATED
HOLDINGS DIVISION

FINANCIAL STATEMENTS

December 31, 2007

Deloitte

Auditors' Report

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the statement of financial position of SaskEnergy Incorporated – Holdings Division as at December 31, 2007 and the statements of income and retained earnings, comprehensive income, accumulated other comprehensive loss and cash flows for the year then ended. These financial statements have been prepared primarily for tabling in the Legislative Assembly, Province of Saskatchewan. These financial statements are the responsibility of the Holdings Division's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Holdings Division as at December 31, 2007, and the results of its operations and its cash flows for the year then ended in accordance with the basis of accounting disclosed in note 3 to the financial statements.

These financial statements, which have not been, and were not intended to be, prepared in accordance with Canadian generally accepted accounting principles, are solely for the information and use of the Legislative Assembly, Province of Saskatchewan. These financial statements are not intended to be and should not be used by anyone other than specified users or for any other purpose.

Deloitte & Touche LLP.

Chartered Accountants

Regina, Saskatchewan
February 15, 2008

SASKENERGY INCORPORATED
HOLDINGS DIVISION
Statement of Financial Position

As at December 31
(thousands of dollars)

	2007	2006
Assets		
Current assets		
Cash	$ 156,974	$ 116,746
Dividends receivable	21,948	10,952
Intercompany accounts receivable	12,033	12,200
Current portion debt retirement funds (Note 5)	3,012	4,288
	193,967	144,186
Investments (Note 6)	796,184	810,709
Debt retirement funds (Note 5)	39,668	33,923
	$ 1,029,819	$ 988,818
Liabilities and Province's Equity		
Current liabilities		
Short-term debt	$ 88,566	$ 68,800
Interest payable	12,076	12,107
Dividend payable	6,766	12,200
Current portion of long-term debt (Note 7)	75,126	47,705
	182,534	140,812
Long-term debt (Note 7)	626,493	624,523
	809,027	765,335
Province of Saskatchewan's equity		
Retained earnings	151,065	151,952
Accumulated other comprehensive loss (Note 8)	(1,804)	-
	149,261	151,952
Equity advances (Note 9)	71,531	71,531
	220,792	223,483
	$ 1,029,819	$ 988,818

(See accompanying notes)

On behalf of the Board:

Director

Director

SASKENERGY INCORPORATED
HOLDINGS DIVISION
Statement of Income and Retained Earnings

Years ended December 31
(thousands of dollars)

	2007	2006
Revenue		
Dividends	$ 53,000	$ 42,668
Interest	43,965	44,857
	96,965	87,525
Expenses		
Interest (Note 7)	44,165	46,252
	44,165	46,252
Net income	52,800	41,273
Retained earnings, beginning of year	151,952	145,179
Change in accounting policy (Note 4)	(687)	-
Dividends	(53,000)	(34,500)
Retained earnings, end of year	$ 151,065	$ 151,952

(See accompanying notes)

SASKENERGY INCORPORATED
HOLDINGS DIVISION
Statement of Comprehensive Income

Years ended December 31
(thousands of dollars)

	2007	2006
Net income	$ 52,800	$ 41,273
Other comprehensive income		
Gains and losses on derivative instruments designated as hedges for accounting purposes in prior periods transferred to net income in the current year	824	-
Losses on financial derivatives designated as hedges	(231)	-
Comprehensive income	$ 53,393	$ 41,273

SASKENERGY INCORPORATED
HOLDINGS DIVISION
Statement of Accumulated Other Comprehensive Loss

Years ended December 31
(thousands of dollars)

	2007	2006
Accumulated other comprehensive income, beginning of year	$ -	$ -
Transitional amounts for gains and losses on derivative instruments designated as hedges for accounting purposes in prior years	(2,397)	-
Other comprehensive income	593	-
Accumulated other comprehensive loss, end of year	$ (1,804)	$ -

(See accompanying notes)

SASKENERGY INCORPORATED
HOLDINGS DIVISION
Statement of Cash Flows

Years ended December 31
(thousands of dollars)

	2007	2006
Operating Activities		
Net income	$ 52,800	$ 41,273
Add (deduct) items not requiring an outlay of cash		
Amortization of premiums, discounts and issue costs (Note 7)	551	720
Debt retirement fund earnings (Note 5)	(1,611)	(1,931)
Other non-cash items- including change in fair value of derivative instruments	(377)	-
	51,363	40,062
Net change in non-cash working capital related to operations (Note 11)	(10,860)	11,911
Cash provided by operating activities	40,503	51,973
Investing Activities		
Increase in loans to and equity investments in subsidiaries	(42,097)	(48,479)
Repayments of loans and equity investments by subsidiaries	54,453	84,392
Cash provided by investing activities	12,356	35,913
Financing Activities		
Proceeds from long-term debt	75,550	38,662
Repayments of long-term debt (net)	(43,417)	(41,597)
(Increase) decrease in financing costs	(420)	928
Debt retirement funds investments	(5,676)	(5,040)
Increase (decrease) in short-term debt	19,766	(11,700)
Dividends paid	(58,434)	(27,500)
Cash used in financing activities	(12,631)	(46,247)
Increase in cash during the year	40,228	41,639
Cash position, beginning of year	116,746	75,107
Cash position, end of year	$ 156,974	$ 116,746

(See accompanying notes)

1. Status of the Corporation

SaskEnergy Incorporated (SaskEnergy) is a Saskatchewan provincial Crown corporation operating under authority of *The SaskEnergy Act*.

By virtue of *The Crown Corporations Act, 1993*, SaskEnergy Incorporated has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC). Accordingly, the financial results of SaskEnergy Incorporated are included in the consolidated financial statements of CIC, a provincial Crown corporation.

As a provincial Crown corporation, SaskEnergy Incorporated and its wholly owned subsidiaries are not subject to Federal or Provincial income taxes in Canada.

2. Basis of Presentation

There are two separate divisions (business units) within SaskEnergy Incorporated. These financial statements reflect only the results of operations of the division which holds interests in the subsidiaries. This division is referred to as the Holdings Division. The other division is referred to as the Distribution Division. Investments in shares of subsidiaries and equity advances to the Distribution Division are not consolidated but are recorded at cost which is not in accordance with generally accepted accounting principles. The financial statements of the Distribution Division are tabled in the Legislative Assembly.

These non-consolidated financial statements are prepared to facilitate tabling in the Legislative Assembly. All information pertinent to the resources and results of operations of the Corporation and its subsidiaries is available to CIC. Consolidated financial statements for the Corporation are presented to the Legislative Assembly.

As these financial statements have not been prepared for general purposes, some users may require consolidated financial information.

3. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management periodically evaluates the estimates and assumptions used based on past experience and other factors considered reasonable under the circumstances. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods. The following accounting policies are considered to be significant:

a. Equity advances to the Distribution Division

These advances are considered to be long-term equity investments by the Holdings Division and are therefore referred to as equity advances. The equity advances are initially recorded at cost. Income distributions from the Distribution Division are recognized in income as dividends when receivable.

3. Summary of Significant Accounting Policies (continued)

b. Investments in wholly owned subsidiaries

Investments in wholly owned subsidiaries are accounted for on the cost method. Dividends from these subsidiaries are recognized as income when receivable.

c. Financial instruments

SaskEnergy classifies its financial instruments into one of the following categories: 1) held-for-trading, 2) held-to-maturity, 3) loans and receivables, 4) available-for-sale, and 5) other liabilities.

All financial instruments are measured at fair value upon initial recognition. The fair value of a financial instrument is the amount at which the financial instrument could be exchanged in an arm's-length-transaction between knowledgeable and willing parties under no compulsion to act.

Financial assets and liabilities classified as held-for-trading are subsequently measured at fair value with changes in fair value recognized in net income. Financial assets classified as available-for-sale are subsequently measured at fair value with changes in fair value recognized in other comprehensive income. Financial assets classified as held-to-maturity and loans and receivables as well as financial liabilities classified as other liabilities are subsequently amortized using the effective interest method. All derivatives are recognized as an asset or liability on the trade date.

Transaction costs related to held-for-trading financial assets and liabilities are expensed as incurred. For all other financial instruments, transaction costs are included in the initial carrying amount.

Cash is classified as held-for-trading. Carrying value approximates fair value due to the short-term nature of these instruments. Accounts receivable, dividends receivable and intercompany accounts receivable are classified as loans and receivables. Carrying value approximates fair value due to the short-term nature of these instruments. The debt retirement funds are classified as held-for-trading assets and recorded at fair value. The change in the fair value of the debt retirement funds is recognized in interest expense.

Accounts payable, short-term debt, and dividend payable are classified as other liabilities. Carrying value approximates fair value due to the short-term nature of these instruments. Long-term debt is classified as other liabilities and recorded at amortized cost. The related debt premium, discount and issue costs are included in the carrying value of the long-term debt and are recognized in interest expense using the effective interest rate method.

3. Summary of Significant Accounting Policies (continued)

The Corporation uses hedge accounting for interest rate swaps used to hedge long-term debt. The effective portion of changes in the fair value is recognized in other comprehensive loss while any ineffective portion of changes in the fair value is recognized immediately in interest expense. Gains and losses are recognized in interest expense in the same period as the hedged item is settled. Interest rate swaps are designated as cash flow hedges. As at December 31, 2007, the Corporation does not have any outstanding fair value hedges.

Derivative financial instruments that do not qualify as a hedge and derivative financial instruments not designated as a hedge are classified as held-for trading and are recorded at fair value in the statement of financial position in current asset or current liabilities as applicable. The change in the fair value of these derivatives is recorded in net income and classified within the revenue or expense category to which they relate. The revenue and expense categories impacted are described in note 10.

SaskEnergy selected January 1, 2003 as the transition date for the identification and recognition of embedded derivatives. Accordingly, only contracts or financial instruments entered into or modified after the transition date were reviewed for embedded derivatives. As at December 31, 2006 and December 31, 2007, the Corporation does not have any outstanding contracts or financial instruments with embedded derivatives.

d. Future accounting policy changes

The Canadian Institute of Chartered Accountants (CICA) has issued new accounting recommendations for disclosure and presentation of financial instruments, Section 3862 – Financial Instruments - Disclosures and Section 3863 – Financial Instruments - Presentation, which are effective for fiscal years beginning on or after October 1, 2007. These new standards require disclosures of both qualitative and quantitative information that enables financial statement users to evaluate the nature and extent of risks arising from financial instruments to which the Corporation is exposed.

Section 1535 – Capital Disclosures has been issued by the CICA and applies to fiscal years beginning on or after October 1, 2007. This section requires disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the Corporation's objectives, policies and processes for managing capital.

4. Changes in Accounting Policies

Effective January 1, 2007, SaskEnergy adopted the new CICA Handbook Section 1506 – Accounting Changes in accordance with the transitional provisions of the section. Section 1506 allows for voluntary changes in accounting policy only if they result in the financial statements providing reliable and more relevant information and that new disclosures are required in respect of changes in accounting policies, changes in accounting estimates and correction of errors. The adoption of Section 1506 has had no material impact on these audited financial statements.

Effective January 1, 2007, SaskEnergy adopted the new CICA Handbook Section 1530 – Comprehensive Income, Section 3251 – Equity, Section 3855 – Financial Instruments - Recognition and Measurement, Section 3861 – Financial Instruments - Presentation and Disclosure, and Section 3865 – Hedges.

4. Changes in Accounting Policies (continued)

Section 1530 requires a new statement of Comprehensive Income and establishes Accumulated Other Comprehensive Income (AOCI) as a separate component of the Province of Saskatchewan's equity. The statement of comprehensive income reflects the changes in AOCI in the period. Changes in AOCI include transitional amounts for changes in fair value of derivative instruments designated as hedges for accounting purposes in prior periods and changes in the fair value of derivative instruments designated as cash flow hedges.

In accordance with the transitional provisions upon the adoption of the new standards, $2,292 thousand of interest rate swap settlements designated as cash flow hedges have been reclassified from deferred charges to accumulated other comprehensive loss and will be subsequently recognized in net income over the life of the underlying long-term debt using the effective interest rate method.

Upon the adoption of the new standards, the impact on opening retained earnings of applying this change in accounting policy effective January 1, 2007 was as follows to recognize fair value adjustments on financial instruments held-for-trading:

	January 1 2007 (thousands)
Investments - subsidiaries debt retirement fund equity fair value and effective interest rate amortization adjustments	$ (2,209)
Debt retirement funds fair value adjustments	1,470
Total assets	$ (739)
Fair value of derivative instruments - current liability	$ 138
Long-term debt effective interest rate amortization adjustment	(190)
Retained earnings, beginning of year	(687)
Total liabilities and equity	$ (739)

Upon the adoption of the new standards, the impact of applying this change in accounting policy effective January 1, 2007 was as follows to recognize fair value adjustments on derivative instruments held-for-trading:

	January 1 2007 (thousands)
Deferred finance charges	$ (2,292)
Total assets	$ (2,292)
Fair value of derivative instruments - current liability	$ 105
Accumulated other comprehensive loss, beginning of year	(2,397)
Total liabilities and equity	$ (2,292)

4. Changes in Accounting Policies (continued)

Upon the adoption of the new standards, the impact of applying this change in accounting policy for the year ended December 31, 2007 was as follows to recognize fair value adjustments on derivative instruments held-for-trading:

	December 31 2007 (thousands)
Interest revenue	$ 40
Interest expense	27
Increase in net income	$ 13

5. Debt Retirement Funds

Under conditions attached to certain advances from the Province of Saskatchewan's General Revenue Fund, SaskEnergy is required (on an annual basis) to invest an amount equal to one per cent of the related outstanding debt. This investment is referred to as a debt retirement fund. These debt retirement funds are administered by Saskatchewan's Ministry of Finance. The investments held in these debt retirement funds are primarily Federal and Provincial Government debt instruments. The yield on these investments was 3.8 per cent for 2007 (5.7 per cent for 2006). Debt retirement funds are held-for-trading assets and are recorded at fair value on the statement of financial position.

Amounts required to be invested in the debt retirement fund in each of the next five years are as follows: (thousands)

2008	2009	2010	2011	2012
$ 6,132	$ 5,882	$ 5,882	$ 5,082	$ 5,082

Debt retirement funds were previously recorded in long-term debt. For the current year, along with comparative figures, the balance of debt retirement funds has been reclassified to assets according to the current and long-term portions.

6. Investments

The Holdings Division has made the following investments in and loans to its subsidiaries and the Distribution Division:

	2007	2006
	(thousands)	
a. Loans receivable *	**$ 579,601**	$ 598,134
b. Equity investments		
Distribution Division	166,949	166,949
SaskEnergy International Incorporated	29,385	29,385
TransGas Limited	4,001	4,001
Bayhurst Gas Limited	1,061	1,061
SaskEnergy Nova Scotia Holdings Ltd.	13,869	9,861
Swan Valley Gas Corporation	1,317	1,317
Saskatchewan First Call Corporation	1	1
Many Islands Pipe Lines (Canada) Limited **	-	-
	216,583	212,575
Total investments	**$ 796,184**	$ 810,709

All companies listed in 6(b) above are wholly owned subsidiaries of the Holdings Division.

* The terms and conditions on the loans receivable from TransGas Limited, Many Islands Pipe Lines (Canada) Limited, Swan Valley Gas Corporation and the Distribution Division are structured so that they reflect the same terms and conditions as the Holdings Division's long-term debt. The loans are net of debt retirement fund instalments received from these entities.

The loan receivable from SaskEnergy Nova Scotia Holdings Ltd. bears a fixed interest rate of 5.25 per cent. The loan matures on December 3, 2012.

** The recorded cost of the Many Islands Pipe Lines (Canada) Limited shares is $101 (2006 - $101).

7. Long-Term Debt

All of the long-term debt is owing to the Province of Saskatchewan's General Revenue Fund.

Years to Maturity	2007 Principal Outstanding (thousands)	2007 Average Fixed Interest Rate (per cent)	2006 Principal Outstanding (thousands)	2006 Average Fixed Interest Rate (per cent)
1 - 5	$ 244,261	7.1	$ 241,966	7.5
6 - 10	214,212	4.7	188,662	4.9
11 - 15	33,971	6.7	33,971	6.7
16 - 35	210,000	6.9	210,000	6.9
	702,444		674,599	
Unamortized premium/discount and issue costs	(825)		(2,371)	
	701,619		672,228	
Less due within one year	(75,126)		(47,705)	
	$ 626,493		$ 624,523	

The effective interest rate for long-term debt was 6.3 per cent.

Debt premium, discount and issue costs were previously recorded in long-term assets. For the current year, along with comparative figures, the balance of debt premium and issue costs have been reclassified to long-term debt.

a. Maturity dates

Maturity dates are equivalent to interest rate repricing dates.

b. Principal repayments

Principal repayments due in each of the next five years are as follows: (thousands)

2008	2009	2010	2011	2012
$ 75,126	$ 39,136	$ 80,000	$ -	$ 50,000

7. Long-Term Debt (continued)

c. Interest expense

Interest expense was as follows:

	2007	2006
	(thousands)	
Interest on long-term debt	**$ 43,315**	$ 45,263
Interest on short-term debt	**1,910**	2,200
Amortization of debt premium/discount and issue costs	**551**	720
Debt retirement fund earnings	**(1,611)**	(1,931)
	$ 44,165	$ 46,252

Cash interest paid during 2007 on long-term debt was $43,329 thousand (2006 - $45,795 thousand)

8. Accumulated Other Comprehensive Loss

The balance in accumulated other comprehensive loss consists of the following:

	2007	2006
	(thousands)	
Transitional amounts for gains and losses on derivative instruments designated as hedges for accounting purposes in prior periods	**$ (1,573)**	$ -
Losses on derivative instruments designated as hedges	**(231)**	-
	$ (1,804)	$ -

9. Equity Advances

The Holdings Division does not have share capital. However, the Holdings Division has received advances from CIC. The advances are considered to be an equity investment in the Holdings Division by CIC.

10. Financial Instruments and Risk Management

a. Fair value of financial instruments

The fair value of the Holding Division's financial instruments is listed below:

	2007		2006	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
	(thousands)			
Debt retirement funds receivable	**$ 42,680**	**$ 42,680**	$ 38,211	$ 39,681
Long-term loans receivable	**623,744**	**703,775**	637,648	725,979
Debt retirement funds payable	**39,612**	**39,612**	35,857	37,236
Long-term debt	**702,445**	**783,755**	674,599	763,252

The fair values of these instruments were based on the following:

i. Debt retirement funds receivable – Equivalent to the fair value of the debt retirement funds receivable from the Province of Saskatchewan as at year end.

ii. Long-term loans receivable – The present value of future cash flows discounted at the market rate for the equivalent Province of Saskatchewan debt instruments.

iii. Debt retirement funds payable – The fair value of the investments held in the debt retirement funds on behalf of the Distribution Division and subsidiaries as at year end.

iv. Long-term debt – The present value of future cash flows discounted at the market rate for the equivalent Province of Saskatchewan debt instruments.

The fair values of other financial instruments, including accounts receivable, bank indebtedness, short-term debt, accounts payable and dividend payable approximate their carrying values due to the short-term nature of the instruments.

The change in fair value of financial assets and liabilities is recorded in net income within the relevant revenue or expense category. For the year ended December 31 the impact on net income of these unrealized gains and losses was as follows:

	2007	2006
	(thousands)	
Interest revenue	$ 40	$ -
Interest expense	27	-
Increase in net income	$ 13	$ -

10. Financial Instruments and Risk Management (continued)

b. Credit risk

The Holdings Division has extended credit only to the Distribution Division and the subsidiary corporations listed in Note 6. The Holdings Division expects all amounts due to be paid. There were no credit losses in 2007.

11. Net Change in Non-Cash Working Capital

	2007	2006
	(thousands)	
Intercompany accounts receivable	$ 167	$ 150
Dividends receivable	(10,996)	12,285
Interest payable	(31)	(524)
	$ (10,860)	$ 11,911

12. Comparative Figures

Certain of the prior year's figures have been reclassified to conform with the current year's presentation.

TRANSGAS LIMITED

FINANCIAL STATEMENTS

December 31, 2007

Deloitte

Auditors' Report

To the Shareholder of TransGas Limited

We have audited the statement of financial position of TransGas Limited as at December 31, 2007 and the statements of income and retained earnings, comprehensive income, accumulated other comprehensive income and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP.

Chartered Accountants

Regina, Saskatchewan
February 15, 2008

TRANSGAS LIMITED
Statement of Financial Position

As at December 31
(thousands of dollars)

	2007	2006
Assets		
Current assets		
Accounts receivable (Note 4)	$ 11,820	$ 9,766
Intercompany accounts receivable	3,740	2,342
Natural gas in storage held for resale	16,325	13,170
Inventories of supplies	1,737	1,194
Fair value of derivative instruments	1,781	-
	35,403	26,472
Property, plant and equipment (Note 5)	491,733	496,004
Natural gas in storage held for operations	33,446	29,374
Debt retirement funds (Note 6)	24,021	19,732
	$ 584,603	$ 571,582
Liabilities and Shareholder's Equity		
Current liabilities		
Bank indebtedness	$ 12,425	$ 25,394
Accounts payable (Note 7)	18,133	14,283
Dividend payable	3,108	-
Intercompany accounts payable	17,169	17,326
Current portion of long-term debt (Note 8)	28,718	10,143
Fair value of derivative instruments	311	-
	79,864	67,146
Asset retirement obligations (Note 9)	4,900	3,361
Long-term debt (Note 8)	310,310	322,806
	395,074	393,313
Shareholder's equity		
Retained earnings	185,155	174,268
Accumulated other comprehensive income (Note 10)	373	-
	185,528	174,268
Share capital (Note 11)	4,001	4,001
	189,529	178,269
	$ 584,603	$ 571,582

(See accompanying notes)

On behalf of the Board:

Director

Director

TRANSGAS LIMITED

Statement of Income and Retained Earnings

Years ended December 31
(thousands of dollars)

	2007	2006
Revenue		
Transportation and storage	$ 130,553	$ 129,734
Gas marketing sales	90,627	106,376
Revenue collected for municipalities (Note 13)	2,433	2,726
	223,613	238,836
Expenses		
Gas marketing cost of gas sold	87,933	104,107
Operating and maintenance	60,606	58,474
Interest (Note 8)	23,685	23,630
Amortization (Note 5)	25,535	25,345
Payments to municipalities (Note 13)	2,433	2,726
Saskatchewan taxes (Note 14)	2,699	2,680
	202,891	216,962
Net income	20,722	21,874
Retained earnings, beginning of year	174,268	166,694
Change in accounting policy (Note 3)	1,092	-
Dividends	(10,927)	(14,300)
Retained earnings, end of year	$ 185,155	$ 174,268

(See accompanying notes)

TRANSGAS LIMITED
Statement of Comprehensive Income

Years ended December 31
(thousands of dollars)

	2007	2006
Net income	$ 20,722	$ 21,874
Other comprehensive loss		
Gains and losses on derivative instruments designated as hedges for accounting purposes in prior years transferred to net income in the current year	(1,506)	-
Comprehensive income	$ 19,216	$ 21,874

TRANSGAS LIMITED
Statement of Accumulated Other Comprehensive Income

Years ended December 31
(thousands of dollars)

	2007	2006
Accumulated other comprehensive income, beginning of year	$ -	$ -
Transitional amounts for gains and losses on derivative instruments designated as hedges for accounting purposes in prior years	1,879	-
Other comprehensive loss	(1,506)	-
Accumulated other comprehensive income, end of year	$ 373	$ -

(See accompanying notes)

TRANSGAS LIMITED
Statement of Cash Flows

Years ended December 31
(thousands of dollars)

	2007	2006
Operating Activities		
Net income	$ 20,722	$ 21,874
Add (deduct) items not requiring an outlay of cash		
Amortization of property, plant and equipment (Note 5)	25,535	25,345
Amortization of deferred charges	333	533
Asset retirement obligations	158	52
Debt retirement fund earnings (Note 6)	(854)	(1,020)
Other non-cash items - including change in fair value of derivative instruments	(1,101)	-
	44,793	46,784
Net change in non-cash working capital related to operations (Note 15)	(3,457)	(17,117)
Cash provided by operating activities	41,336	29,667
Investing Activities		
Net additions to property, plant and equipment	(36,331)	(25,984)
Capital contributions received (Note 5)	16,453	5,696
Increase in natural gas in storage - non-current	(4,072)	(5,392)
Cash used in investing activities	(23,950)	(25,680)
Financing Activities		
(Decrease) increase in bank indebtedness	(12,969)	25,394
Dividends paid	(7,819)	(28,300)
Decrease in short-term loan payable to parent	-	(13,550)
(Increase) decrease in financing costs	(337)	928
Proceeds on issue of notes payable	16,559	37,562
Repayment of notes payable	(10,144)	(23,831)
Debt retirement fund investments	(2,676)	(2,300)
Cash used in financing activities	(17,386)	(4,097)
Decrease in cash during the year	-	(110)
Cash position, beginning of year	-	110
Cash position, end of year	$ -	$ -

(See accompanying notes)

1. Status of the Corporation

TransGas Limited was incorporated on March 30, 1988 under *The Saskatchewan Business Corporations Act*. TransGas Limited is a wholly owned subsidiary of SaskEnergy Incorporated (SaskEnergy), a Saskatchewan provincial Crown corporation, and therefore is not subject to Federal or Provincial income taxes in Canada.

The affairs of the Corporation are managed by its Board of Directors and the management of its parent, SaskEnergy.

The Corporation operates a natural gas transmission pipeline system within Saskatchewan providing open access transmission services as well as gathering, compression and natural gas processing to end use customers, marketers and producers. The Corporation has the legislated franchise for the transmission of natural gas within Saskatchewan. The Corporation also provides natural gas storage services.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management periodically evaluates the estimates and assumptions used based on past experience and other factors considered reasonable under the circumstances. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods. The following accounting policies are considered to be significant:

a. Natural gas in storage

i. Natural gas in storage held for resale

Natural gas in storage for resale is stated at the lower of cost and net realizable value. Natural gas in storage for resale is located within the Corporation's various underground natural gas storage facilities.

ii. Natural gas in storage held for operations

Natural gas in storage held for operations is stated at cost. Natural gas in storage held for operations is located within the Corporation's various underground natural gas storage facilities and is required for the ongoing operation of the storage facilities.

b. Inventories of supplies

Inventories of supplies consist primarily of pipe and general stock used for construction and maintenance and are recorded at the lower of average cost or replacement cost.

2. Summary of Significant Accounting Policies

c. Property, plant and equipment

Property, plant and equipment is recorded at cost and includes all direct costs plus overhead charges and an allowance for interest costs related to financing construction of the related assets.

The costs of renewals and betterments which extend the economic life of assets are capitalized.

Retirement or sale of a major item or class of property, plant and equipment, is accounted for by relieving the asset of the associated cost and accumulated amortization. The difference between the proceeds and the net book value of the assets disposed is included in earnings for the current period.

Other asset retirements are recorded by reducing the account by the cost of the asset and charging this amount, net of proceeds received, to accumulated amortization.

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rates are as follows: (in per cent)

Transmission and storage	2.5 to 2.6
Gathering, treatment and compression	2.5 to 3.5
Vehicles, equipment and other	4.0 to 33.3

Customer capital contributions relate to construction of new service connections. These contributions from customers are amortized on a straight-line basis over the estimated service life of the related asset.

d. Asset retirement obligations

The Corporation records the costs associated with the future decommissioning of certain natural gas facilities when a reasonable estimate is known. The estimate is recorded as part of the related asset along with a related obligation. Due to the long-term nature of the assumptions made in the cost estimates, there could be a material adjustment to income in future reporting periods. Therefore, revisions will be made periodically to reflect more accurate estimates.

e. Financial instruments

The Corporation classifies its financial instruments into one of the following categories: 1) held-for-trading, 2) held-to-maturity, 3) loans and receivables, 4) available-for-sale, and 5) other liabilities.

All financial instruments are measured at fair value upon initial recognition. The fair value of a financial instrument is the amount at which the financial instrument could be exchanged in an arm's-length-transaction between knowledgeable and willing parties under no compulsion to act.

2. Summary of Significant Accounting Policies (continued)

Financial assets and liabilities classified as held-for-trading are subsequently measured at fair value with changes in fair value recognized in net income. Financial assets classified as available-for-sale are subsequently measured at fair value with changes in fair value recognized in other comprehensive income. Financial assets classified as held-to-maturity and loans and receivables as well as financial liabilities classified as other liabilities are subsequently amortized using the effective interest method. All derivatives are recognized as an asset or liability on the trade date.

Transaction costs related to held-for-trading financial assets and liabilities are expensed as incurred. For all other financial instruments, transaction costs are included in the initial carrying amount.

Cash is classified as held-for-trading. Carrying value approximates fair value due to the short-term nature of these instruments. Accounts receivable and intercompany accounts receivable are classified as loans and receivables. Carrying value approximates fair value due to the short-term nature of these instruments. The debt retirement funds are classified as held-for-trading assets and recorded at fair value. The change in the fair value of the debt retirement funds is recognized in interest expense.

Bank indebtedness is classified as held-for-trading. Carrying value approximates fair value due to the short-term nature of these instruments. Accounts payable, intercompany accounts payable and dividend payable are classified as other liabilities. Carrying value approximates fair value due to the short-term nature of these instruments. Long-term debt is classified as other liabilities and recorded at amortized cost. The related debt premium, discount and issue costs are included in the carrying value of the long-term debt and are amortized into interest expense using the effective interest rate method.

Derivative financial instruments that do not qualify as a hedge and derivative financial instruments not designated as a hedge are classified as held-for trading and are recorded at fair value in the statement of financial position in current assets or current liabilities as applicable. The change in the fair value of these derivatives is recorded in net income and classified within the revenue or expense category to which they relate. The revenue and expense categories impacted are described in note 12.

The Corporation selected January 1, 2003 as the transition date for the identification and recognition of embedded derivatives. Accordingly, only contracts or financial instruments entered into or modified after the transition date were reviewed for embedded derivatives. As at December 31, 2006 and December 31, 2007, the Corporation does not have any outstanding contracts or financial instruments with embedded derivatives.

f. Revenue recognition

Revenue is recognized when transportation, transportation-related services and storage are provided to customers. An estimate of transportation, storage and related services rendered, but not billed as of December 31, is included in revenue.

2. Summary of Significant Accounting Policies (continued)

Revenue from natural gas marketing is recorded in the financial statements upon completion of the delivery of natural gas to the customer. The Corporation acts as a principal in these natural gas marketing transactions, taking title to the natural gas purchased for resale, and assuming the risks and rewards of ownership. Changes in the fair value of outstanding gas marketing sales contracts are recorded as gains or losses in gas marketing sales or gas marketing cost of gas sold in the period of change.

g. Cost of gas sold

The cost of gas sold includes the cost of purchasing natural gas on the open market, risk management derivative financial instrument settlements, fair value adjustments on outstanding risk management derivative financial and non-financial instruments, transportation, direct operating costs related to supply acquisition, and natural gas inventory carrying costs.

h. Gas marketing

The Corporation may enter into contracts that require either the physical delivery (sale) or receipt (purchase) of natural gas in a future period.

i. Where the Corporation purchases natural gas in the open market and simultaneously enters into agreements to sell this natural gas, the fixed gain or loss is recognized when the natural gas is delivered to customers.

Changes in the fair value of the contracts due to a change in market prices up to the date of settlement are recorded as gains or losses in gas marketing sales or gas marketing cost of gas sold in the period of change.

i. Rate regulation

The Corporation has the legislated franchise for the transmission of natural gas within Saskatchewan. Accordingly, transportation rates are subject to approval by the Provincial Cabinet. The financial statements of the Corporation are prepared in accordance with Canadian generally accepted accounting principles and are not impacted by this rate approval process.

j. Employees' future benefits

i. Pension plans

The Corporation provides pension plans for all eligible employees, including a defined contribution pension plan and a defined benefit pension plan.

Under both plans the Corporation's obligations are limited to making regular payments to the plans for current services. When made, these contributions are charged to expenses.

2. Summary of Significant Accounting Policies (continued)

ii. Retiring allowance plan

The cost of future retirement allowance benefits earned by employees under this plan is actuarially determined using the projected benefit method and management's best estimates.

k. Future accounting policy changes

The Canadian Institute of Chartered Accountants (CICA) has issued new accounting recommendations for disclosure and presentation of financial instruments, Section 3862 – Financial Instruments - Disclosures and Section 3863 – Financial Instruments - Presentation, which are effective for fiscal years beginning on or after October 1, 2007. These new standards require disclosures of both qualitative and quantitative information that enables financial statement users to evaluate the nature and extent of risks arising from financial instruments to which the Corporation is exposed.

Section 1535 – Capital Disclosures has been issued by the CICA and applies to fiscal years beginning on or after October 1, 2007. This section requires disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the Corporation's objectives, policies and processes for managing capital.

The CICA has also issued Section 3031 – Inventories, which allows inventories to be measured at the lower of cost and net realizable value or at fair value if certain criteria are met. In addition, the standard permits the use of specific identification where items are not normally interchangeable, the first-in, first-out (FIFO) method and weighted average method for costing inventory. The last-in, first-out (LIFO) method may not be used under the new standard. This standard is effective for fiscal years beginning on or after January 1, 2008. The Corporation has chosen to apply the weighted average method of cost determination for natural gas in storage, and at December 31, 2007 was examining the impact of choosing to fair value natural gas in storage at each reporting period. At December 31, 2007, the estimated impact of this decision was not yet determined. The standard may also result in major spare parts and stand-by equipment qualifying as property, plant and equipment. Any reclassification of these assets is not anticipated to have a material impact on the Corporation's financial statements.

3. Changes in Accounting Policies

Effective January 1, 2007, the Corporation adopted the new CICA Handbook Section 1506 – Accounting Changes in accordance with the transitional provisions of the section. Section 1506 allows for voluntary changes in accounting policy only if they result in the financial statements providing reliable and more relevant information and that new disclosures are required in respect of changes in accounting policies, changes in accounting estimates and correction of errors. The adoption of Section 1506 has had no material impact on these audited financial statements.

Effective January 1, 2007, the Corporation adopted the new CICA Handbook Section 1530 – Comprehensive Income, Section 3251 – Equity, Section 3855 – Financial Instruments - Recognition and Measurement, Section 3861 – Financial Instruments - Presentation and Disclosure, and Section 3865 – Hedges.

3. Changes in Accounting Policies (continued)

Section 1530 requires a new statement of Comprehensive Income and establishes Accumulated Other Comprehensive Income (AOCI) as a separate component of the Province of Saskatchewan's equity. The statement of comprehensive income reflects the changes in AOCI in the period. Changes in AOCI include transitional amounts for gains and losses on derivative instruments designated as hedges for accounting purposes in prior periods, and changes in the fair value of derivative instruments designated as cash flow hedges.

The Corporation discontinued the use of hedge accounting on its natural gas derivative instruments on January 1, 2007. In accordance with the transitional rules upon the adoption of the new standards, as at January 1, 2007 $1,879 thousand of favourable fair value adjustments on previously designated natural gas hedges have been recorded in AOCI and will subsequently be recognized in net income in the same period the original hedged items are recognized in net income. All natural gas derivatives will settle by October 31, 2009. Changes in the fair value of these natural gas derivatives since January 1, 2007 have been recognized in net income and included with gas marketing sales and gas marketing cost of gas sold.

Upon the adoption of the new standards, the impact of applying this change in accounting policy effective January 1, 2007 was as follows to recognize fair value adjustments on financial instruments held-for-trading:

	January 1 2007 (thousands)
Debt retirement funds fair value adjustments	$ 759
Total assets	$ 759
Notes payable to parent	$ (333)
Retained earnings, beginning of year	1,092
Total liabilities and equity	$ 759

3. Changes in Accounting Policies (continued)

Upon the adoption of the new standards, the impact of applying this change in accounting policy effective January 1, 2007 was as follows to recognize fair value adjustments on derivative instruments held-for-trading:

	January 1 2007 (thousands)
Fair value of derivative instruments - current asset	$ 5,517
Total assets	$ 5,517
Fair value of derivative instruments - current liabiity	$ 3,638
Accumulated other comprehensive loss, beginning of year	1,879
Total liabilities and equity	$ 5,517

Upon the adoption of the new standards, the impact of applying this change in accounting policy for the year ended December 31, 2007 was as follows to recognize fair value adjustments on derivative instruments held-for-trading:

	December 31 2007 (thousands)
Gas marketing sales	$ 416
Gas marketing cost of gas sold	(681)
Interest expense	(53)
Increase in net income	$ 1,150

4. Accounts Receivable

	2007 (thousands)	2006 (thousands)
Unbilled revenue	$ 7,037	$ 6,459
Trade accounts	3,828	2,594
Other accounts	955	713
	$ 11,820	$ 9,766

5. Property, Plant and Equipment

	2007			2006		
	(thousands)					
	Cost	**Accumulated Amortization**	**Net Book Value**	**Cost**	**Accumulated Amortization**	**Net Book Value**
Transmission and storage	**$ 643,964**	**$ 212,388**	**$ 431,576**	$ 624,186	$ 195,877	$ 428,309
Gathering, treatment and compression	**155,824**	**68,204**	**87,620**	153,215	63,480	89,735
Vehicles, equipment and other	**74,525**	**50,749**	**23,776**	69,166	45,873	23,293
Construction in progress	**16,360**	**-**	**16,360**	7,396	-	7,396
	$ 890,673	**$ 331,341**	**559,332**	$ 853,963	$ 305,230	548,733
Less:						
Unamortized customer capital contributions			**67,599**			52,729
			$ 491,733			$ 496,004

a. Customer capital contributions

Customer capital contributions are required to be paid by customers to the Corporation to aid in construction of certain customer-specific facilities in accordance with established business policies:

	2007	2006
	(thousands)	
Balance, beginning of year	**$ 52,729**	$ 48,501
Contributions received	**16,453**	5,696
Amortization of contributions	**(1,583)**	(1,468)
Balance, end of year	**$ 67,599**	$ 52,729

b. Amortization

	2007	2006
	(thousands)	
Amortization of property, plant and equipment	**$ 27,118**	$ 26,813
Amortization of customer capital contributions	**(1,583)**	(1,468)
	$ 25,535	$ 25,345

The composite rate of amortization (excluding the effect of customer capital contributions amortization) was 3.2 per cent during 2007 (3.3 per cent during 2006).

5. Property, Plant and Equipment (continued)

Included in transmission assets is an amount of $3,086 thousand (2006 - $2,936 thousand) received from SaskEnergy for customer capital contributions in aid of construction of certain transmission facilities. Amortization of customer capital contributions related to this amount in 2007 was $104 thousand (2006 - $104 thousand).

6. Debt Retirement Funds

The Corporation has received long-term debt from the Province of Saskatchewan's General Revenue Fund. The terms and conditions of this debt require (on an annual basis) the investment of an amount equal to one per cent of the related outstanding debt. This investment is referred to as a debt retirement fund. The yield on these investments was 3.8 per cent for 2007 (5.7 per cent for 2006).

Amounts required to be invested in the debt retirement fund in each of the next five years are as follows: (thousands)

2008	2009	2010	2011	2012
$ 2,841	$ 2,841	$ 2,841	$ 2,041	$ 2,041

Debt retirement funds were previously recorded in short and long-term debt. For the current year, along with comparative figures, the balance of debt retirement funds has been reclassified to long-term assets.

7. Accounts Payable

	2007	2006
	(thousands)	
Supplier payables	$ 10,484	$ 7,369
Other payables	7,649	6,914
	$ 18,133	$ 14,283

8. Long-Term Debt

	2007		2006	
Years to Maturity	Principal Outstanding (thousands)	Average Fixed Interest Rate (per cent)	Principal Outstanding (thousands)	Average Fixed Interest Rate (per cent)
Notes payable to parent				
1 - 5	$ 131,140	7.4	$ 141,283	7.8
6 - 10	104,121	4.7	87,562	4.8
16 - 30	100,000	7.8	100,000	7.8
	335,261		328,845	
Unamortized discount/issue costs	(1,048)		(711)	
	334,213		328,134	
Less due within one year	(28,718)		(10,143)	
	305,495		317,991	
Other debt	4,815	13.5	4,815	13.5
	$ 310,310		$ 322,806	

The effective interest rate for notes payable to parent was 6.7 per cent.

Debt premium, discount and issue costs were previously recorded in long-term assets. For the current year, along with comparative figures, the balance of debt premium and issue costs have been reclassified to long-term debt.

a. Maturity dates

Maturity dates are equivalent to interest rate repricing dates.

b. Principal repayments

Principal repayments due in each of the next five years are as follows: (thousands)

2008	2009	2010	2011	2012
$ 28,718	$ 22,422	$ 80,000	$ -	$ -

8. Long-Term Debt (continued)

c. Interest expense

Interest expense was as follows:

	2007	2006
	(thousands)	
Interest on notes payable to parent	**$ 22,426**	$ 22,914
Short-term interest expense	**1,334**	961
Interest on other debt	**650**	650
Amortization of discount/issue costs	**333**	322
Interest capitalized	**(204)**	(197)
Debt retirement fund earnings	**(854)**	(1,020)
	$ 23,685	$ 23,630

Cash interest paid during the year on notes payable to parent was $22,478 thousand (2006 - $23,039 thousand).

The Corporation has a Credit Facility Agreement with its parent, SaskEnergy whereby it may borrow $100,000 thousand on a revolving basis. The Corporation pays an interest rate determined by SaskEnergy which is equivalent to SaskEnergy's average rate on short-term notes borrowed from the Province of Saskatchewan. Under this agreement the Corporation may make repayments at any time without penalty and SaskEnergy may terminate the loans without notice.

9. Asset Retirement Obligations

The Corporation has estimated the future costs of decommissioning certain natural gas facilities. The timing of future decommissioning and settlement dates of these obligations are conditional upon the Corporation's intended use for these facilities. For purposes of estimating the fair value of these obligations, as at December 31, a settlement period ranging from 2008 to 2016 has been assumed.

As at December 31, the $6,140 thousand (2006 - $4,371 thousand) estimated future cash flows required to settle these obligations were discounted to $4,900 thousand (2006 - $3,361 thousand) applying credit adjusted risk free rates ranging from 3.2 to 6.4 per cent.

During the year, the Corporation recognized expenses of $158 thousand (2006 - $93 thousand), an addition of $1,381 thousand (2006 - $nil thousand) and a settlement of $nil thousand (2006 - $41 thousand) related to these asset retirement obligations.

10. Accumulated Other Comprehensive Income

The balance in accumulated other comprehensive income consists of the following:

	2007	2006
	(thousands)	
Transitional amounts for gains and losses on derivative instruments designated as hedges for accounting purposes in prior periods	$ 373	$ -

11. Share Capital

Authorized share capital consists of an unlimited number of Class A common shares without nominal or par value. Thirty (30) shares (2006 - thirty) are issued and outstanding.

12. Financial Instruments and Risk Management

a. Fair value of financial instruments

The fair value of the Corporation's financial instruments is listed below:

	2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(thousands)			
Notes payable	**$ 335,260**	**$ 381,583**	$ 333,660	$ 392,600
Debt retirement funds	**24,021**	**24,021**	19,732	20,491

The fair values of the above instruments were based on the following:

i. Notes payable – The present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.

ii. Debt retirement funds – The market value of the investments held in the fund as at December 31.

b. Natural gas derivative instruments

The fair value of natural gas derivative instruments held-for-trading is calculated daily and is based on quoted market prices. For physical natural gas contracts notional values are an approximation of future net cash flows based on contract price multiplied by contract quantity. For other derivative financial instruments, the notional value is the difference between the contract price and the market price. Where contract prices are referenced to an index price that has not yet been fixed, the market price at December 31 has been used to estimate the contract price. In 2007, all derivative asset and liabilities held-for-trading are recorded on the statement of financial position at fair value.

12. Financial Instruments and Risk Management (continued)

As at December 31, natural gas derivative instruments held-for-trading have the following fair values, notional values and maturities.

	2008	2009	Total
		(thousands)	
Physical natural gas contracts			
Fair value	$ 402	$ 612	$ 1,014
Notional value	14,376	(12,184)	2,192
Natural gas price swap			
Fair value	302	154	456
Notional value	302	154	456
Total			
Fair value	$ 704	$ 766	$ 1,470
Notional value	$ 14,678	$ (12,030)	$ 2,648

Fair value - increase (decrease)
Notional value - estimated net cash inflow (outflow)

At December 31, 2006 derivative financial instruments had a fair value of $3,639 thousand.

The fair values of other financial instruments (accounts receivable, intercompany accounts receivable, bank indebtedness, accounts payable, dividend payable, and intercompany accounts payable) approximate their carrying value due to the short term nature of these instruments.

The change in fair value of financial assets and liabilities is recorded in net income within the relevant revenue or expense category. For the year ended December 31 the impact on net income of these unrealized gains and losses was as follows:

	2007	2006
	(thousands)	
Gas marketing sales	**$ 416**	$ -
Gas marketing cost of gas sold	**(681)**	-
Interest expense	**(53)**	-
Increase in net income	**$ 1,150**	**$ -**

12. Financial Instruments and Risk Management (continued)

c. Risk management

The Corporation uses various derivative financial instruments to manage the risk associated with its operating exposures to fluctuations in the price of natural gas. A Corporate Derivatives Policy and specific risk management strategies establish the guidelines within which such derivative financial instruments may be used.

i. Natural gas price risk

The Corporation may manage the risk associated with the purchase and sale price of natural gas. The purchase or sale price may be fixed within the contract, or referenced to a floating index price. When the price is referenced to a floating index price, natural gas derivative instruments may be used to fix the settlement amount. The types of natural gas derivative instruments the Corporation uses for price risk management may include natural gas price swaps, options, swaptions, and futures contracts.

ii. Credit risk

The Corporation provides credit to its customers in the normal course of business and is at risk of loss in the event of non-performance by counterparties on certain of the financial instruments described above. Excluding related parties (see Note 16), the Corporation has approximately 124 customers. There were no credit losses in 2007 (2006 - no credit losses).

d. The Corporation leases natural gas storage facilities near Regina, Saskatchewan. The base lease payments are as follows: (thousands)

2008	2009	2010	2011	2012	Total
$ 210	$ 215	$ 220	$ 111	$ -	$ 756

13. Revenue Collected for and Paid to Municipalities

In accordance with the provisions of *The SaskEnergy Act*, the Corporation is required to collect from specific customers an amount based on the value of natural gas transported on their behalf. The Corporation in turn pays the revenue collected to certain municipalities. The revenue collected is classified as revenue collected for municipalities, and the expense paid is classified as payments to municipalities on the statement of income and retained earnings.

14. Saskatchewan Taxes

Saskatchewan taxes include the following:

	2007	2006
	(thousands)	
Corporate capital tax	$ 2,156	$ 2,136
Mitigation payments and property taxes	543	544
	$ 2,699	$ 2,680

The above amounts do not include Saskatchewan Provincial Sales Tax payments.

15. Net Change in Non-Cash Working Capital

	2007	2006
	(thousands)	
Accounts receivable	$ (2,054)	$ 5,580
Natural gas in storage held for resale	(3,155)	(9,138)
Intercompany accounts receivable	(1,398)	1,103
Inventories of supplies	(543)	(208)
Accounts payable	3,850	(16,789)
Intercompany accounts payable	(157)	2,335
	$ (3,457)	$ (17,117)

16. Related Party Transactions

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

a. Transactions with SaskEnergy and its subsidiaries were as follows:

	2007	2006
	(thousands)	
Transportation and storage revenue	$ 45,173	$ 44,016
Gas marketing sales	22,670	-
Operating and maintenance expenses	14,852	14,524
Interest expense	23,169	23,177
Gas marketing cost of gas	(122)	-
Fair value of derivative instruments - current asset	527	-
Fair value of derivative instruments - current liability	291	-
Purchase of property, plant and equipment	20	38
Natural gas in storage held for resale	4,686	-

These items have been recorded at their exchange amounts. Amounts outstanding at year end have been shown as intercompany accounts receivable and intercompany accounts payable on the statement of financial position.

16. Related Party Transactions (continued)

b. Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties).

These transactions, and amounts outstanding at year end, are as follows:

Accounts receivable	**$ 309**	$ 146
Accounts payable	**72**	48
Revenue	**19,757**	21,220
Operating expenses	**9,415**	7,183
Customer capital contributions	**3,144**	3,924

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Province of Saskatchewan on all of its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts due to and from related parties and the terms of settlement are described separately in these financial statements and the notes thereto.

17. Employees' Future Benefits

a. Pension plans

Employees of the Corporation are members of either a defined contribution or a defined benefit pension plan. During the year, the Corporation contributed $918 thousand (2006 - $760 thousand) on behalf of employees for current services.

17. Employees' Future Benefits (continued)

b. Retiring allowance plan

The amounts related to the defined benefit retiring allowance plan for management employees and members of the Communications, Energy and Paperworkers Union (CEP), Local 649 are as follows:

	2007	2006
	(thousands)	
Accrued benefit liability	**$ 3,912**	$ 3,629
Benefits paid during the year	**286**	161
Net expense	**568**	520

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit liability at December 31 are:

	2007	2006
Discount rate	**5.0 per cent**	4.5 per cent
Inflation rate	**2.5 per cent**	2.5 per cent
Average remaining employee service life	**8.8 years**	11.1 years

For employees who are members of the CEP, the length of service earned for the purpose of the retiring allowance plan is equal to their service up to and including December 31, 2004 less service time converted to other employee benefits. Remaining entitlements, if any, under the retiring allowance plan will be paid out to CEP members upon their retirement in accordance with the terms of the plan.

For management employees, the length of service earned for the purpose of the retiring allowance plan is equal to their service up to and including December 31, 2005. Entitlements under the retiring allowance plan will be paid out to management employees upon their retirement in accordance with the terms of the plan.

18. Rate Regulation

The impact of rate regulation on the application of Canadian generally accepted accounting principles as it relates to the regulated operations of the Corporation is as follows:

By virtue of legislation, the Corporation has the exclusive authority to transport natural gas within Saskatchewan. Accordingly, the Provincial Cabinet has the authority to set transportation rates charged to shippers.

Based on the foregoing rate-setting process, revenue recognition policies for transportation revenue are as described in note 2f. The Corporation's transportation revenue was $96,233 thousand for 2007 (2006 - $100,373 thousand).

19. Comparative Figures

Certain of the prior year's figures have been reclassified to conform with the current year's presentation.

MANY ISLANDS PIPE LINES (CANADA) LIMITED

FINANCIAL STATEMENTS

December 31, 2007

Deloitte

Auditors' Report

To the Shareholder of Many Islands Pipe Lines (Canada) Limited

We have audited the statement of financial position of Many Islands Pipe Lines (Canada) Limited as at December 31, 2007 and the statements of income and comprehensive income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP.

Chartered Accountants

Regina, Saskatchewan
February 15, 2008

MANY ISLANDS PIPE LINES (CANADA) LIMITED

Statement of Financial Position

As at December 31
(thousands of dollars)

	2007	2006
Assets		
Current assets		
Accounts receivable	$ 133	$ 186
Intercompany accounts receivable	138	155
	271	341
Property, plant and equipment (Note 4)	15,716	16,319
Debt retirement funds (Note 5)	590	472
	$ 16,577	$ 17,132
Liabilities and Shareholder's Equity		
Current liabilities		
Bank indebtedness	$ 851	$ 275
Accounts payable	76	172
Dividend payable	-	730
Intercompany accounts payable	251	258
Current portion of notes payable (Note 6)	871	307
	2,049	1,742
Notes payable to parent (Note 6)	8,850	9,706
	10,899	11,448
Shareholder's equity		
Share capital (Note 7)	-	-
Retained earnings	5,678	5,684
	5,678	5,684
	$ 16,577	$ 17,132

(See accompanying notes)

On behalf of the Board:

Director

Director

MANY ISLANDS PIPE LINES (CANADA) LIMITED

Statement of Income and Comprehensive Income and Retained Earnings

Years ended December 31

(thousands of dollars)

	2007	2006
Revenue		
Transportation	$ 3,583	$ 4,109
Expenses		
Operating and maintenance	1,149	1,080
Interest (Note 6)	664	706
Amortization	646	645
Saskatchewan taxes (Note 10)	1,039	948
	3,498	3,379
Net income and comprehensive income	85	730
Retained earnings, beginning of year	5,684	5,684
Change in accounting policy (Note 3)	(1)	-
Dividends	(90)	(730)
Retained earnings, end of year	$ 5,678	$ 5,684

(See accompanying notes)

MANY ISLANDS PIPE LINES (CANADA) LIMITED
Statement of Cash Flows
Years ended December 31
(thousands of dollars)

	2007	2006
Operating Activities		
Net income	$ **85**	$ 730
Add (deduct) items not requiring an outlay of cash		
Amortization of property, plant and equipment	**646**	645
Other non-cash items - including change in fair value	**(24)**	(31)
	707	1,344
Net change in non-cash working capital related to operations (Note 11)	**(33)**	531
Cash provided by operating activities	**674**	1,875
Investing Activities		
Net additions to property, plant and equipment	**(43)**	(76)
Cash used in investing activities	**(43)**	(76)
Financing Activities		
Increase in bank indebtedness	**576**	275
Decrease in short-term loan payable to parent	**-**	(1,316)
Repayments of notes payable to parent	**(307)**	(723)
Dividends paid	**(820)**	-
Debt retirement fund investments	**(80)**	(80)
Cash used in financing activities	**(631)**	(1,844)
Decrease in cash during the year	**-**	(45)
Cash position, beginning of year	**-**	45
Cash position, end of year	$ **-**	$ -

(See accompanying notes)

Many Islands Pipe Lines (Canada) Limited
Notes to the Financial Statements
December 31, 2007

1. Status of the Corporation

Many Islands Pipe Lines (Canada) Limited was incorporated on July 2, 1972 under *The Canada Business Corporations Act*. The Corporation is a wholly owned subsidiary of SaskEnergy Incorporated (SaskEnergy), a Saskatchewan provincial Crown corporation, and therefore is not subject to Federal or Provincial income taxes in Canada.

The affairs of the Corporation are managed by its Board of Directors and the management of its parent, SaskEnergy.

The Corporation owns and/or operates fourteen natural gas transmission pipelines: eleven interconnects between Alberta and Saskatchewan, two interconnects between the United States and Saskatchewan, and one interconnect between Saskatchewan and Manitoba. The pipelines are located mainly in Saskatchewan and either cross or terminate at the Alberta, Manitoba and United States borders. The Corporation is regulated by the National Energy Board.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management periodically evaluates the estimates and assumptions used based on past experience and other factors considered reasonable under the circumstances. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods. The following accounting policies are considered to be significant:

a. Property, plant and equipment

Property, plant and equipment is stated at cost and includes all direct costs plus overhead charges and an allowance for interest costs related to financing construction of the related assets.

The costs of renewals and betterments which extend the economic useful life of assets are capitalized.

Retirement or sale of a major item or class of property, plant and equipment, is accounted for by relieving the asset accounts of the associated cost and accumulated amortization. The difference between the proceeds and the net book value of the assets disposed is included in income for the current period.

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rates are as follows: (in per cent)

Distribution	
- Transmission	2.6
- Compression	3.5
- Treatment	2.5
Other	2.5 - 15.0

2. Summary of Significant Accounting Policies (continued)

b. Financial instruments

The Corporation classifies its financial instruments into one of the following categories: 1) held-for-trading, 2) held-to-maturity, 3) loans and receivables, 4) available-for-sale, and 5) other liabilities.

All financial instruments are measured at fair value upon initial recognition.. The fair value of a financial instrument is the amount at which the financial instrument could be exchanged in an arm's-length-transaction between knowledgeable and willing parties under no compulsion to act.

Financial assets and liabilities classified as held-for-trading are subsequently measured at fair value with changes in fair value recognized in net income. Financial assets classified as available-for-sale are subsequently measured at fair value with changes in fair value recognized in other comprehensive income. Financial assets classified as held-to-maturity and loans and receivables as well as financial liabilities classified as other liabilities are subsequently amortized using the effective interest method. All derivatives are recognized as an asset or liability on the trade date.

Cash is classified as held-for-trading. Carrying value approximates fair value due to the short-term nature of these instruments. Accounts receivable and intercompany accounts receivable are classified as loans and receivables. Carrying value approximates fair value due to the short-term nature of these instruments. The debt retirement funds are classified as held-for-trading assets and recorded at fair value. The change in the fair value of the debt retirement funds is recognized in interest expense.

Bank indebtedness is classified as held-for-trading. Carrying value approximates fair value due to the short-term nature of these instruments. Accounts payable, intercompany accounts payable, short-term debt, and dividend payable are classified as other liabilities. Carrying value approximates fair value due to the short-term nature of these instruments. Long-term debt is classified as other liabilities and recorded at amortized cost. The related debt premium, discount and issue costs are included in the carrying value of the long-term debt and are recognized in interest expense using the effective interest rate method.

The Corporation selected January 1, 2003 as the transition date for the identification and recognition of embedded derivatives. Accordingly, only contracts or financial instruments entered into or modified after the transition date were reviewed for embedded derivatives. As at December 31, 2006 and December 31, 2007, the Corporation does not have any outstanding contracts or financial instruments with embedded derivatives.

c. Revenue recognition

Revenue is recognized when transportation services are provided to customers. An estimate of transportation services rendered, but not billed as of December 31, is included in revenue.

2. Summary of Significant Accounting Policies (continued)

d. Future accounting policy changes

The Canadian Institute of Chartered Accountants (CICA) has issued new accounting recommendations for disclosure and presentation of financial instruments, Section 3862 – Financial Instruments - Disclosures and Section 3863 – Financial Instruments - Presentation, which are effective for fiscal years beginning on or after October 1, 2007. These new standards require disclosures of both qualitative and quantitative information that enables financial statement users to evaluate the nature and extent of risks arising from financial instruments to which the Corporation is exposed.

Section 1535 – Capital Disclosures has been issued by the CICA and applies to fiscal years beginning on or after October 1, 2007. This section requires disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the Corporation's objectives, policies and processes for managing capital.

3. Changes in Accounting Policies

Effective January 1, 2007, the Corporation adopted the new CICA Handbook Section 1506 – Accounting Changes in accordance with the transitional provisions of the section. Section 1506 allows for voluntary changes in accounting policy only if they result in the financial statements providing reliable and more relevant information and that new disclosures are required in respect of changes in accounting policies, changes in accounting estimates and correction of errors. The adoption of Section 1506 has had no material impact on these audited financial statements.

Effective January 1, 2007, the Corporation adopted the new CICA Handbook Section 1530 – Comprehensive Income, Section 3251 – Equity, Section 3855 – Financial Instruments - Recognition and Measurement, Section 3861 – Financial Instruments - Presentation and Disclosure, and Section 3865 – Hedges.

Upon the adoption of the new standards, the impact of applying this change in accounting policy effective January 1, 2007 was as follows to recognize fair value adjustments on financial instruments held-for-trading:

	January 1 2007 (thousands)
Debt retirement funds fair value adjustments	$ 18
Total assets	$ 18
Notes payable to parent	$ 19
Retained earnings, beginning of year	(1)
Total liabilities and equity	$ 18

4. Property, Plant and Equipment

	2007			2006		
	(thousands)					
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Transmission	**$ 24,123**	**$ 8,647**	**$ 15,476**	$ 23,993	$ 8,029	$ 15,964
Compression	**712**	**486**	**226**	775	502	273
Treatment	**14**	**6**	**8**	14	6	8
Other	**465**	**459**	**6**	465	458	7
Construction in Progress	**-**	**-**	**-**	67	-	67
	$ 25,314	**$ 9,598**	**$ 15,716**	$ 25,314	$ 8,995	$ 16,319

The composite rate of amortization was 2.6 per cent during 2007 (2.5 per cent during 2006).

a. On April 1, 1988, the Corporation acquired a pipeline from Consolidated Pipe Lines Company (CPL). The original cost of the pipeline to CPL was $9,182 thousand and accumulated amortization of $6,879 thousand had been recorded as of April 1, 1988.

b. Pursuant to a National Energy Board (NEB) order dated April 11, 1991 the Corporation acquired a pipeline from its parent company, SaskEnergy Incorporated. Pursuant to a NEB order also dated April 11, 1991, SaskEnergy acquired the pipeline from Saskatchewan Power Corporation (SPC). The original cost of this pipeline to SPC was $264 thousand and accumulated amortization of $151 thousand had been recorded as of April 11, 1991.

c. On December 9, 1993, the Corporation purchased a pipeline from an affiliated company, TransGas Limited, pursuant to a NEB order dated December 9, 1993. The original cost of the pipeline to TransGas Limited was $2,895 thousand and accumulated amortization of $62 thousand had been recorded as of December 9, 1993.

5. Debt Retirement Funds

The Corporation has received long-term debt from the Province of Saskatchewan's General Revenue Fund. The terms and conditions of this debt require (on an annual basis) the investment of an amount equal to one per cent of the related outstanding debt. This investment is referred to as a debt retirement fund. The yield on these investments was 3.8 per cent for 2007 (5.7 per cent for 2006).

Amounts required to be invested in the debt retirement fund in each of the next five years are as follows: (thousands)

2008	2009	2010	2011	2012
$ 80	$ 80	$ 80	$ 80	$ 80

Debt retirement funds were previously recorded in long-term debt. For the current year, along with comparative figures, the balance of debt retirement funds has been reclassified as long-term assets.

6. Notes Payable to Parent

	2007		2006	
Years to Maturity	Principal Outstanding (thousands)	Average Fixed Interest Rate (per cent)	Principal Outstanding (thousands)	Average Fixed Interest Rate (per cent)
1 - 5	**$ 1,551**	**9.3**	$ 1,858	9.3
16 - 30	**8,000**	**6.4**	8,000	6.4
	9,551		9,858	
Unamortized discount/issue costs	**170**		155	
Less due within one year	**(871)**		(307)	
	$ 8,850		$ 9,706	

The effective interest rate on notes payable to parent was 6.7 percent.

Debt premium, discount and issue costs were previously recorded in long-term assets. For the current year, along with comparative figures, the balance of debt premium and issue costs have been reclassified to long-term debt.

6. Notes Payable to Parent (continued)

a. Maturity dates

Maturity dates are equivalent to interest rate repricing dates.

b. Principal repayments

Principal repayments due in each of the next five years are as follows: (thousands)

2008	2009	2010	2011	2012
$ 871	$ 680	$ -	$ -	$ -

c. Interest expense

Interest expense was as follows:

	2007	2006
	(thousands)	
Interest on notes payable to parent	**$ 662**	$ 717
Interest on short-term borrowings	**28**	19
Debt retirement fund earnings	**(21)**	(23)
Amortization of discount/issue costs	**(3)**	(6)
Interest capitalized	**(2)**	(1)
	$ 664	$ 706

Cash interest paid during the year on notes payable to parent was $670 thousand (2006 - $737 thousand).

The Corporation has a Credit Facility Agreement with its parent, SaskEnergy, whereby it may borrow up to $2,500 thousand on a revolving basis. The Corporation pays interest at a rate determined by SaskEnergy which is equivalent to SaskEnergy's average rate on short-term notes borrowed from the Province of Saskatchewan. Under this agreement, the Corporation may make repayments at any time without penalty, and SaskEnergy may terminate the loans without notice.

7. Share Capital

Authorized share capital consists of 50,000 Class A common shares without nominal or par value. One hundred and one shares (2006 - 101) are issued and outstanding. The shares were issued for nominal consideration of $101.

8. Financial Instruments and Risk Management

a. Fair value of financial instruments

The fair value of the Corporation's financial instruments is listed below:

	2007		2006	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
		(thousands)		
Notes payable to parent	**$ 9,551**	**$ 11,655**	$ 9,858	$ 12,124
Debt retirement funds	**590**	**590**	472	490

The fair values of the above instruments were based on the following:

i. Notes payable to parent – The present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.

ii. Debt retirement funds – The market value of the investments held in the debt retirement fund as determined by Saskatchewan's Ministry of Finance as at December 31.

The fair values of other financial instruments, including accounts receivable, bank indebtedness, short-term debt, accounts payable and dividend payable approximate their carrying values due to the short-term nature of these instruments.

The change in fair value of financial assets and liabilities is recorded in net income within the relevant revenue or expense category. For the year ended December 31 the impact on net income of these unrealized gains and losses was as follows:

	2007	2006
	(thousands)	
Interest expense	**$ (2)**	$ -
Increase in net income	**$ 2**	$ -

b. Credit risk management

The Corporation provides credit to its customers in the normal course of business. To reduce its credit risk, the Corporation has established policies and procedures to monitor and limit the amount of credit extended to its customers. Excluding related parties (see Note 1), during 2007, the Corporation had twelve customers (2006 - nine) from which it earned approximately 37.1 per cent of its revenue (2006 - 40.1 per cent).

9. Other Comprehensive Income

CICA Handbook Section 1530 – Comprehensive Income establishes standards for the reporting and disclosure of comprehensive income. The Corporation does not have any items that required separate recognition outside of net income, and as a result, the adoption of this section did not have any impact on the Corporation's financial statements. Comprehensive income is equivalent to net income for the year ended December 31, 2007.

10. Saskatchewan Taxes

Saskatchewan taxes include the following:

	2007	2006
	(thousands)	
Property taxes	**$ 1,022**	$ 932
Corporate capital tax	**17**	16
	$ 1,039	$ 948

The above amounts do not include Saskatchewan Provincial Sales Tax payments.

11. Net Change in Non-Cash Working Capital

	2007	2006
	(thousands)	
Accounts receivable	**$ 53**	$ (48)
Intercompany accounts receivable	**17**	518
Accounts payable	**(96)**	83
Intercompany accounts payable	**(7)**	(22)
	$ (33)	$ 531

12. Related Party Transactions

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

a. Transactions with SaskEnergy and its subsidiaries were as follows:

	2007	2006
	(thousands)	
Revenue	$ **2,253**	$ 2,435
Operating and maintenance expenses	**835**	811
Interest expense	**665**	707
Sale of property, plant and equipment	**20**	-

These items have been recorded at their exchange amounts. Amounts outstanding at year end have been shown as intercompany accounts receivable and intercompany accounts payable on the statement of financial position.

b. Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties).

These transactions include operating expenses of $22 thousand (2006 - $29 thousand).

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Saskatchewan Ministry of Finance on all of its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

13. Rate Regulation

The business activities of the Corporation are regulated by the National Energy Board.

Revenue recognition policies for the Corporation's transportation revenue are as described in Note 2c. The Corporation's transportation revenue for 2007 was $3,583 thousand (2006 - $4,109 thousand).

14. Comparative Figures

Certain of the prior year amounts have been reclassified to conform to the current year's presentation.

6

BAYHURST GAS LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007

Deloitte

Auditors' Report

To the Shareholder of Bayhurst Gas Limited

We have audited the consolidated statement of financial position of Bayhurst Gas Limited as at December 31, 2007 and the consolidated statements of income and retained earnings, comprehensive income, accumulated other comprehensive loss and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP.

Chartered Accountants

Regina, Saskatchewan
February 15, 2008

BAYHURST GAS LIMITED

Consolidated Statement of Financial Position

As at December 31
(thousands of dollars)

	2007	2006
Assets		
Current assets		
Accounts receivable	$ 2,763	$ 1,014
Intercompany accounts receivable	3,226	2,658
Natural gas in storage held for resale	55,753	25,853
Fair value of derivative instruments	2,539	535
	64,281	30,060
Natural gas in storage held for resale	2,247	2,988
Property, plant and equipment (Note 4)	11,742	7,313
Other assets	339	-
	$ 78,609	$ 40,361
Liabilities and Shareholder's Equity		
Current liabilities		
Bank indebtedness	$ 53,604	$ 28,729
Accounts payable	3,659	614
Intercompany accounts payable	579	210
Dividend payable	12,429	6,722
Fair value of derivative instruments	1,327	406
	71,598	36,681
Asset retirement obligations (Note 5)	2,744	2,619
	74,342	39,300
Shareholder's equity		
Retained earnings	3,413	-
Accumulated other comprehensive loss (Note 6)	(207)	-
	3,206	-
Share capital (Note 7)	1,061	1,061
	4,267	1,061
	$ 78,609	$ 40,361

(See accompanying notes)

On behalf of the Board:

Director

Director

BAYHURST GAS LIMITED

Consolidated Statement of Income and Retained Earnings

Years ended December 31
(thousands of dollars)

	2007	2006
Revenue		
Gas marketing sales	$ 81,741	$ 46,424
Royalties	4,558	5,388
Other	438	9
	86,737	51,821
Expenses		
Gas marketing cost of gas sold	49,045	23,664
Operating and maintenance	4,102	2,407
Amortization (Note 4)	1,244	1,146
Interest (Note 9)	1,285	338
Saskatchewan taxes (Note 10)	724	128
	56,400	27,683
Net income	30,337	24,138
Retained earnings, beginning of year	-	-
Dividends	(26,924)	(24,138)
Retained earnings, end of year	$ 3,413	$ -

(See accompanying notes)

BAYHURST GAS LIMITED
Consolidated Statement of Comprehensive Income

Years ended December 31
(thousands of dollars)

	2007	2006
Net income	$ 30,337	$ 24,138
Other comprehensive loss		
Gains and losses on derivative instruments designated as hedges for accounting purposes in prior years transferred to net income in the current year	(4,665)	-
Comprehensive income	$ 25,672	$ 24,138

BAYHURST GAS LIMITED
Consolidated Statement of Accumulated Other Comprehensive Loss

Years ended December 31
(thousands of dollars)

	2007	2006
Accumulated other comprehensive income, beginning of year	$ -	$ -
Transitional amounts for gains and losses on derivative instruments designated as hedges for accounting purposes in prior years	4,458	-
Other comprehensive loss	(4,665)	-
Accumulated other comprehensive loss, end of year	$ (207)	$ -

(See accompanying notes)

BAYHURST GAS LIMITED
Consolidated Statement of Cash Flows

Years ended December 31
(thousands of dollars)

	2007	2006
Operating Activities		
Net income	$ 30,337	$ 24,138
Add (deduct) items not requiring an outlay of cash		
Amortization of property, plant and equipment (Note 4)	1,244	1,146
Amortization of other assets	31	-
Asset retirement obligation	(20)	121
Other non-cash items - including change in fair value of derivative instruments	(1,290)	(129)
	30,302	25,276
Net change in non-cash working capital related to operations (Note 11)	(29,353)	(24,190)
Decrease in natural gas in storage - non-current	741	990
Cash provided by operating activities	1,690	2,076
Investing Activities		
Acquisition (Note 14)	(5,067)	-
Reductions (additions) to property, plant and equipment	89	(281)
Additions to other assets	(370)	-
Cash used in investing activities	(5,348)	(281)
Financing Activities		
Bank indebtedness	24,875	28,453
Dividends paid	(21,217)	(26,653)
Decrease in short-term loan payable to parent	-	(3,595)
Cash provided by (used in) financing activities	3,658	(1,795)
Increase in cash during the year	-	-
Cash position, beginning of year	-	-
Cash position, end of year	$ -	$ -

(See accompanying notes)

1. Status of the Corporation

Bayhurst Gas Limited was incorporated on March 30, 1988 under *The Saskatchewan Business Corporations Act*. The Corporation is a wholly owned subsidiary of SaskEnergy Incorporated (SaskEnergy), a Saskatchewan provincial Crown corporation and therefore is not subject to Federal or Provincial income taxes in Canada.

The affairs of the Corporation are managed by the Board of Directors and the management of its parent, SaskEnergy.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management periodically evaluates the estimates and assumptions used based on past experience and other factors considered reasonable under the circumstances. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods. The following accounting policies are considered to be significant:

a. Principles of consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiary, Bayhurst Energy Services Corporation. The accounts also include the Corporation's 50 per cent proportionate share of the Kisbey Gas Gathering and Processing Facility, an unincorporated joint venture.

b. Natural gas in storage held for resale

Natural gas in storage held for resale (both current and non-current) is stated at the lower of cost and net realizable value. Natural gas held for resale removed from storage is accounted for on an average cost basis.

c. Property, plant and equipment

Property, plant and equipment is stated at cost and includes all direct costs plus overhead charges and an allowance for interest costs related to financing construction of the related assets. The costs of renewals and betterments which extend the economic life of assets are capitalized.

Retirement or sale of a major item or class of property, plant and equipment is accounted for by relieving the asset accounts of the associated cost and accumulated amortization. The difference between the proceeds and the net book value of the assets disposed is included in income for the current period.

2. Summary of Significant Accounting Policies (continued)

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rates are as follows: (in per cent)

Transmission and storage	20.0 to 50.0
Gathering, treatment and compression	2.0 to 50.0

Customer capital contributions relate to construction of new service connections. These contributions from customers are amortized on a straight-line basis over the estimated service life of the related asset.

d. Asset retirement obligations

The Corporation records the costs associated with the future decommissioning of certain natural gas facilities when a reasonable estimate is known. The estimate is recorded as part of the related asset along with a related obligation. Due to the long-term nature of the assumptions made in the cost estimates, there could be a material adjustment to income in future reporting periods. Therefore, revisions will be made periodically to reflect more accurate estimates.

e. Financial instruments

The Corporation classifies its financial instruments into one of the following categories: 1) held-for-trading, 2) held-to-maturity, 3) loans and receivables, 4) available-for-sale, and 5) other liabilities.

All financial instruments are measured at fair value upon initial recognition. The fair value of a financial instrument is the amount at which the financial instrument could be exchanged in an arm's-length-transaction between knowledgeable and willing parties under no compulsion to act.

Financial assets and liabilities classified as held-for-trading are subsequently measured at fair value with changes in fair value recognized in net income. Financial assets classified as available-for-sale are subsequently measured at fair value with changes in fair value recognized in other comprehensive income.. Financial assets classified as held-to-maturity and loans and receivables as well as financial liabilities classified as other liabilities are subsequently amortized using the effective interest method. All derivatives are recognized as an asset or liability on the trade date.

Transaction costs related to held-for-trading financial assets and liabilities are expensed as incurred. For all other financial instruments, transaction costs are included in the initial carrying amount.

Cash is classified as held-for-trading. Carrying value approximates fair value due to the short-term nature of these instruments. Accounts receivable and intercompany accounts receivable are classified as loans and receivables. Carrying value approximates fair value due to the short-term nature of these instruments.

Bank indebtedness is classified as held-for-trading. Carrying value approximates fair value due to the short-term nature of these instruments. Accounts payable, intercompany accounts payable, short-term debt, and dividend payable are classified as other liabilities. Carrying value approximates fair value due to the short-term nature of these instruments.

2. Summary of Significant Accounting Policies (continued)

Derivative financial instruments that do not qualify as a hedge and derivative financial instruments not designated as a hedge are classified as held-for trading and are recorded at fair value in the statement of financial position in current assets and current liabilities as applicable. The change in the fair value of these derivatives is recorded in net income and classified within the revenue or expense category to which they relate. The revenue and expense categories impacted are described in note 8a.

The Corporation selected January 1, 2003 as the transition date for the identification and recognition of embedded derivatives. Accordingly, only contracts or financial instruments entered into or modified after the transition date were reviewed for embedded derivatives. As at December 31, 2006 and December 31, 2007, the Corporation does not have any outstanding contracts or financial instruments with embedded derivatives.

f. Revenue recognition

Revenue from natural gas marketing is recorded upon completion of the delivery of natural gas to the customer. The Corporation acts as a principal in these natural gas marketing transactions, taking title to the natural gas purchased for resale, and assuming the risks and rewards of ownership. Changes in the fair value of outstanding gas marketing sales contracts are recorded as gains or losses in the period of change.

Revenue from natural gas and liquid sales is recorded in the financial statements upon completion of the delivery of natural gas and liquids to the customer. The Corporation acts as a principal in these sales transactions and assumes the risks and rewards of ownership.

Royalty revenue is recognized when natural gas is sold from wells subject to royalty agreements. Royalty revenue, accounts receivable and accrued revenue are subject to measurement uncertainty. These amounts are based on the Corporation's best information and judgment.

g. Cost of gas sold

The cost of gas sold includes the cost of purchasing natural gas on the open market, risk management derivative financial instrument settlements, fair value adjustments on outstanding risk management derivative financial and non-financial instruments, transportation, direct operating costs related to supply acquisition, and natural gas inventory carrying costs.

h. Gas marketing

The Corporation may enter into contracts that require either the physical delivery (sale) or receipt (purchase) of natural gas in a future period.

i. Where the Corporation purchases natural gas in the open market and simultaneously enters into agreements to sell this natural gas, the fixed gain or loss is recognized when the natural gas is delivered to customers.

ii. Where the Corporation enters into natural gas contracts with no initial offsetting purchase or sale, the gain or loss on these transactions is the difference between the sales revenue recognized in the period and the average cost of natural gas required to fulfill those sales.

2. Summary of Significant Accounting Policies (continued)

Changes in the fair value of the contracts due to a change in market prices up to the date of settlement are recorded as gains or losses in gas marketing sales or gas marketing cost of gas sold in the period of change.

i. Future accounting policy changes

The Canadian Institute of Chartered Accountants (CICA) has issued new accounting recommendations for disclosure and presentation of financial instruments, Section 3862 – Financial Instruments - Disclosures and Section 3863 – Financial Instruments - Presentation, which are effective for fiscal years beginning on or after October 1, 2007. These new standards require disclosures of both qualitative and quantitative information that enables financial statement users to evaluate the nature and extent of risks arising from financial instruments to which the Corporation is exposed.

Section 1535 – Capital Disclosures has been issued by the CICA and applies to fiscal years beginning on or after October 1, 2007. This section requires disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the Corporation's objectives, policies and processes for managing capital.

The CICA has also issued Section 3031 – Inventories, which allows inventories to be measured at the lower of cost and net realizable value or at fair value if certain criteria are met. In addition, the standard permits the use of specific identification where items are not normally interchangeable, the first-in, first-out (FIFO) method and weighted average method for costing inventory. The last-in, first-out (LIFO) method may not be used under the new standard. This standard is effective for fiscal years beginning on or after January 1, 2008. The Corporation has chosen to apply the weighted average method of cost determination for natural gas in storage, and at December 31, 2007 was examining the impact of choosing to fair value natural gas in storage at each reporting period. At December 31, 2007, the estimated impact of this decision was not yet determined. The standard may also result in major spare parts and stand-by equipment qualifying as property, plant and equipment. Any reclassification of these assets is not anticipated to have a material impact on the Corporation's financial statements.

3. Changes in Accounting Policies

Effective January 1, 2007, the Corporation adopted the new CICA Handbook Section 1506 – Accounting Changes in accordance with the transitional provisions of the section. Section 1506 allows for voluntary changes in accounting policy only if they result in the financial statements providing reliable and more relevant information and that new disclosures are required in respect of changes in accounting policies, changes in accounting estimates and correction of errors. The adoption of Section 1506 has had no material impact on these audited consolidated financial statements.

Effective January 1, 2007, the Corporation adopted the new CICA Handbook Section 1530 – Comprehensive Income, Section 3251 – Equity, Section 3855 – Financial Instruments - Recognition and Measurement, Section 3861 – Financial Instruments - Presentation and Disclosure, and Section 3865 – Hedges.

3. Changes in Accounting Policies (continued)

Section 1530 requires a new statement of Comprehensive Income and establishes Accumulated Other Comprehensive Income (AOCI) as a separate component of the Province of Saskatchewan's equity. The statement of comprehensive income reflects the changes in AOCI in the period. Changes in AOCI include transitional amounts for gains and losses on derivative instruments designated as hedges for accounting purposes in prior periods, and changes in the fair value of derivative instruments designated as cash flow hedges. These new standards require retrospective adoption without restatement.

The Corporation discontinued the use of hedge accounting on its natural gas derivative instruments on January 1, 2007. In accordance with the transitional rules upon the adoption of the new standards, as at January 1, 2007 $4,458 thousand of unrealized gains and losses on the previously designated natural gas hedges have been recorded in AOCI and will subsequently be recognized in net income in the same period the original hedged items are recognized in net income. All natural gas derivatives will settle by October 31, 2011. Changes in the fair value of these natural gas derivatives since January 1, 2007 have been recognized in net income and included with gas marketing sales and gas marketing cost of gas sold.

Upon the adoption of the new standards, the impact of applying this change in accounting policy effective January 1, 2007 was as follows to recognize fair value adjustments on derivative instruments held-for-trading:

	January 1 2007 (thousands)
Fair value of derivative instruments - current asset	$ 4,825
Total assets	$ 4,825
Fair value of derivative instruments - current liability	$ 367
Accumulated other comprehensive income, beginning of year	4,458
Total liabilities and equity	$ 4,825

Upon the adoption of the new standards, the impact of applying this change in accounting policy for the year ended December 31, 2007 was as follows to recognize fair value adjustments on derivative instruments held-for-trading:

	December 31 2007 (thousands)
Gas marketing sales	$ 1,420
Increase in net income	$ 1,420

4. Property, Plant and Equipment

	2007			2006		
	(thousands)					
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Gathering, treatment and compression	$ 11,601	$ 2,195	$ 9,406	$ 5,839	$ 1,749	$ 4,090
Storage	3,882	2,612	1,270	4,029	2,152	1,877
Transmission	2,639	1,531	1,108	2,581	1,192	1,389
	$ 18,122	$ 6,338	11,784	$ 12,449	$ 5,093	7,356
Less:						
Unamortized customer capital contributions			42			43
			$ 11,742			$ 7,313

a. Customer capital contributions

Customer capital contributions are required to be paid by customers to the Corporation to aid in construction of certain customer-specific facilities in accordance with established business policies:

	2007	2006
	(thousands)	
Balance, beginning of year	$ 43	$ 44
Amortization of contributions	(1)	(1)
Balance, end of year	$ 42	$ 43

b. Amortization

	2007	2006
	(thousands)	
Amortization of property, plant and equipment	$ 1,245	$ 1,147
Amortization of customer capital contributions	(1)	(1)
	$ 1,244	$ 1,146

The composite rate of amortization (excluding the effect of customer capital contributions amortization) was 8.2 per cent during 2007 (9.3 per cent during 2006).

5. Asset Retirement Obligations

The Corporation has estimated the future costs of decommissioning certain natural gas facilities. The timing of future decommissioning and settlement dates of each obligation is conditional upon the Corporation's intended use for these facilities. Under certain market conditions, the Corporation may be required to re-determine its intended use for these facilities. For purposes of estimating the fair value of these obligations at December 31, a settlement period ranging from 2012 to 2022 has been assumed.

As of December 31, the $2,744 thousand (2006 - $2,619 thousand) estimated future cash flow required to settle these obligations was discounted to $2,744 thousand (2006 - $2,619 thousand) applying a credit adjusted risk free rates ranging from 4.3 to 4.8 per cent. During the year, the Corporation recognized a revision in cash flow estimates of $147 thousand (2006 - $nil thousand).

6. Accumulated Other Comprehensive Loss

The balance in accumulated other comprehensive loss consists of the following:

	2007	2006
	(thousands)	
Transitional amounts for gains and losses on derivative instruments designated as hedges for accounting purposes in prior periods	$ (207)	$ -

7. Share Capital

Authorized share capital consists of an unlimited number of Class A common shares. One hundred twenty (120) shares (2006 - 120 shares) are issued and outstanding.

8. Financial Instruments and Risk Management

a. Natural gas derivative instruments

The fair value of natural gas derivative instruments held-for-trading is calculated daily and is based on quoted market prices. For physical natural gas contracts notional values are an approximation of future net cash flows based on contract price multiplied by contract quantity. For other derivative financial instruments, the notional value is the difference between the contract price and the market price. Where contract prices are referenced to an index price that has not yet been fixed, the market price at December 31 has been used to estimate the contract price. In 2007, all derivative asset and liabilities held-for-trading are recorded on the statement of financial position at fair value.

As at December 31, 2007, natural gas derivative instruments held-for-trading had the following fair values, notional values and maturities.

	2008	**2009**	**2010**	**2011**	**2012**	**Total**
			(thousands)			
Physical natural gas contracts						
Fair value	$ 23	$ -	$ -	$ -	$ -	$ 23
Notional value	11,565	-	-	-	-	11,565
Natural gas price swap						
Fair value	2,283	(19)	(395)	(465)	(215)	1,189
Notional value	2,283	(19)	(395)	(465)	(215)	1,189
Total						
Fair value	$ 2,306	$ (19)	$ (395)	$ (465)	$ (215)	$ 1,212
Notional value	$ 13,848	$ (19)	$ (395)	$ (465)	$ (215)	$ 12,754

Fair value - increase (decrease)
Notional value - estimated net cash inflow (outflow)

At December 31, 2006 derivative financial instruments had a fair value of $129 thousand.

The fair values of other financial instruments, including accounts receivable, bank indebtedness, accounts payable and dividend payable approximate their carrying values due to the short-term nature of the instruments.

8. Financial Instruments and Risk Management (continued)

The change in fair value of financial assets and liabilities subsequently measured at fair value is recorded in net income within the revenue or expense category to which they relate. For the year ended December 31 the impact on net income of these unrealized gains and losses was as follows:

	2007	2006
	(thousands)	
Gas marketing sales	**$ 1,291**	$ 129
Increase in net income	**$ 1,291**	$ 129

Risk management

The Corporation uses various derivative financial instruments to manage the risks associated with its operating exposures to fluctuations the price of natural gas. A Corporate Derivatives Policy and specific risk management strategies establish the guidelines within such derivative financial instruments may be used.

i. Natural gas price risk

The Corporation may manage the risk associated with the purchase and sale price of natural gas. The purchase or sale price of natural gas may be fixed within the contract, or referenced to a floating index price. When the price is referenced to a floating index price, natural gas derivative instruments may be used for price risk management to fix the settlement amount. The types of natural gas derivative instruments the Corporation uses for price risk management include natural gas price swaps, options, and futures contracts.

ii. Credit risk

The Corporation receives monthly royalty revenue from certain natural gas properties located in Saskatchewan and Alberta. During 2007, the Corporation had one non-related company from which it received approximately 66 per cent of its royalty revenue (2006 - 60 per cent). The Corporation expects all future royalty payments to be received in accordance with the terms and conditions of the royalty agreements. There were no credit losses in 2007.

Derivative credit risk arises from the possibility that a counterparty to a contract fails to perform according to the terms and conditions of that contract. Derivative credit risk is minimized by dealing with large, credit-worthy counterparties in accordance with established credit approval policies.

9. Interest Expense

Interest expense was as follows:

	2007	2006
	(thousands)	
Interest on bank indebtedness	$ 1,285	$ 352
Interest on bank balances	-	(14)
	$ 1,285	$ 338

During the year, the Corporation made cash payments for interest on bank indebtedness to the parent of $1,185 thousand (2006 - $276 thousand).

The Corporation has a Credit Facility Agreement with its parent, SaskEnergy whereby it may borrow $100,000 thousand on a revolving basis. The Corporation pays an interest rate determined by SaskEnergy which is equivalent to SaskEnergy's average rate on short-term notes borrowed from the Province of Saskatchewan. Under this agreement the Corporation may make repayments at any time without penalty and SaskEnergy may terminate the loans without notice.

10. Saskatchewan Taxes

	2007	2006
	(thousands)	
Corporate capital tax	$ 724	$ 128

The above amounts do not include Saskatchewan Provincial Sales Tax payments.

11. Net Change in Non-Cash Working Capital

	2007	2006
	(thousands)	
Accounts receivable	$ (1,749)	$ 470
Intercompany accounts receivable	(568)	132
Natural gas in storage held for resale	(29,900)	(24,942)
Accounts payable	2,495	96
Intercompany accounts payable	369	54
	$ (29,353)	$ (24,190)

12. Related Party Transactions

Routine operating transactions with these related parties are settled at exchange amounts which approximate prevailing market prices under normal trade terms. Transactions during the year, and amounts outstanding at year end, are as follows:

a. Transactions with SaskEnergy and its subsidiaries were as follows:

	2007	2006
	(thousands)	
Revenue from natural gas sales	$ 34,846	$ 16,786
Cost of gas sales	1,804	2,026
Operating expenses	2,985	1,871
Interest expense	1,285	338
Fair value of derivative instruments - current asset	74	-
Fair value of derivative instruments - current liability	51	-
Intercompany accounts receivable	3,226	2,658
Intercompany accounts payable	579	210

b. Included in these consolidated financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties).

These transactions, and amounts outstanding at year end, are as follows:

	2007	2006
	(thousands)	
Accounts payable	$ 455	$ 334
Royalties expense	1,443	1,425
Operating expenses	15	-
Saskatchewan taxes	724	128

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Province of Saskatchewan on all of its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts due to and from related parties and the terms of settlement are described separately in these consolidated financial statements and the notes thereto.

13. Joint Venture

The following amounts have been included in these consolidated financial statements to account for the Corporation's 50 per cent proportionate share of the Kisbey Gas Gathering and Processing Facility, an unincorporated joint venture:

a. Consolidated statement of financial position

	2007 **(thousands)**
Current assets	$ 369
Property, plant and equipment	5,715
Current liabilities	(172)
Net investment in joint venture	$ 5,912

b. Consolidated statement of income

	2007 **(thousands)**
Revenues	$ 356
Expenses	(226)
Income from joint venture	$ 130

c. Consolidated statement of cash flows

	2007 **(thousands)**
Cash used in operations	$ -
Change in cash	$ -

14. Acquisition

On November 1, 2007, the Corporation acquired 50 per cent of an existing natural gas processing plant and gathering system, the Kisbey Gas Gathering and Processing Facility. This plant is operated through an unincorporated joint venture. The purchase price of $5,617 thousand was paid (net of holdbacks amounting to $550 thousand) and allocated to property, plant and equipment.

15. Comparative Figures

Certain of the prior year amounts have been reclassified to conform with the current year's presentation.

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BAYHURST ENERGY SERVICES CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007

Deloitte

Auditors' Report

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the consolidated statement of financial position of Bayhurst Energy Services Corporation as at December 31, 2007 and the consolidated statements of income and comprehensive income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP.

Chartered Accountants

Regina, Saskatchewan
February 15, 2008

BAYHURST ENERGY SERVICES CORPORATION
Consolidated Statement of Financial Position

As at December 31
(thousands of dollars)

		2007
Assets		
Current assets		
Cash	$	1,123
Accounts receivable		1,751
		2,874
Property, plant and equipment (Note 3)		5,715
Other assets		659
	$	9,248
Liabilities and Shareholder's Equity		
Current liabilities		
Accounts payable	$	2,914
Intercompany accounts payable		319
		3,233
Asset retirement obligation (Note 4)		145
Note payable to parent (Note 5)		3,575
		6,953
Shareholder's equity		
Share capital (Note 6)		1,926
Retained earnings		369
		2,295
	$	9,248

(See accompanying notes)

On behalf of the Board:

Director

Director

BAYHURST ENERGY SERVICES CORPORATION

Consolidated Statement of Income and Comprehensive Income and Retained Earnings

Period ended December 31
(thousands of dollars)

		2007
Revenue		
Natural gas and liquid sales	$	356
Other		372
		728
Expenses		
Cost of gas sold		70
Operating and maintenance		209
Amortization (Note 3)		47
Interest (Note 5)		33
		359
Net income and comprehensive income and retained earnings	$	369

(See accompanying notes)

BAYHURST ENERGY SERVICES CORPORATION
Consolidated Statement of Cash Flows

Period ended December 31
(thousands of dollars)

		2007
Operating Activities		
Net income	$	369
Add items not requiring an outlay of cash		
Other non-cash items		(320)
Asset retirement obligation		145
Amortization of property, plant and equipment (Note 3)		47
Amortization of other assets		31
		272
Net change in non-cash working capital related to operations (Note 9)		1,482
Cash provided by operating activities		1,754
Investing Activities		
Acquisition (Note 13)		(5,762)
Additions to other assets		(370)
Cash used in investing activities		(6,132)
Financing Activities		
Note payable to parent		3,575
Issuance of common shares		1,926
Cash provided by financing activities		5,501
Increase in cash during the period		1,123
Cash position, beginning of period		-
Cash position, end of period	$	1,123

(See accompanying notes)

1. Status of the Corporation

Bayhurst Energy Services Corporation was incorporated on October 5, 2007 under *The Saskatchewan Business Corporations Act*. The Corporation is a wholly owned subsidiary of Bayhurst Gas Limited. Bayhurst Gas Limited is a wholly owned subsidiary of SaskEnergy Incorporated, a Saskatchewan provincial Crown corporation, and therefore is not subject to Federal or Provincial income taxes in Canada.

The affairs of the Corporation are managed by the Board of Directors and the management of Bayhurst Gas Limited's parent, SaskEnergy Incorporated.

2. Summary of Significant Accounting Policies

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries, 101003896 Saskatchewan Ltd., 101017198 Saskatchewan Ltd., 101025265 Saskatchewan Ltd., 101025266 Saskatchewan Ltd., 101029614 Saskatchewan Ltd., 101045644 Saskatchewan Ltd., 101049742 Saskatchewan Ltd., 101049743 Saskatchewan Ltd., 101077099 Saskatchewan Ltd., and 101077101 Saskatchewan Ltd., and the Corporation's 50 per cent proportionate share of the Kisbey Gas Gathering and Processing Facility, an unincorporated joint venture.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management periodically evaluates the estimates and assumptions used based on past experience and other factors considered reasonable under the circumstances. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods. The following accounting policies are considered to be significant:

a. Property, plant and equipment

Property, plant and equipment is stated at cost and includes all direct costs plus overhead charges and an allowance for interest costs related to financing construction of the related assets. The costs of renewals and betterments which extend the economic useful life of assets are capitalized.

Retirement or sale of a major item or class of property, plant and equipment is accounted for by relieving the asset accounts of the associated cost and accumulated amortization. The difference between the proceeds and the net book value of the assets disposed is included in income for the current period.

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The annual amortization rate for gathering and treatment assets is 6.7 per cent.

2. Summary of Significant Accounting Policies (continued)

b. Asset retirement obligation

The Corporation records the costs associated with the future decommissioning of certain natural gas facilities when a reasonable estimate is known. The estimate is recorded as part of the related asset along with a related obligation. Due to the long-term nature of the assumptions made in the cost estimates, there could be a material adjustment to income in future reporting periods. Therefore, revisions will be made periodically to reflect more accurate estimates.

c. Financial instruments

The Corporation classifies its financial instruments into one of the following categories: 1) held-for-trading, 2) held-to-maturity, 3) loans and receivables, 4) available-for-sale, and 5) other liabilities.

All financial instruments are measured at fair value upon initial recognition. The fair value of a financial instrument is the amount at which the financial instrument could be exchanged in an arm's-length-transaction between knowledgeable and willing parties under no compulsion to act.

Financial assets and liabilities classified as held-for-trading are subsequently measured at fair value with changes in fair value recognized in net income. Financial assets classified as available-for-sale are subsequently measured at fair value with changes in fair value recognized in other comprehensive income. Financial assets classified as held-to-maturity and loans and receivables as well as financial liabilities classified as other liabilities are subsequently amortized using the effective interest method. All derivatives are recognized as an asset or liability on the trade date.

Transaction costs related to held-for-trading financial assets and liabilities are expensed as incurred. For all other financial instruments, transaction costs are included in the initial carrying amount.

Cash is classified as held-for-trading. Carrying value approximates fair value due to the short-term nature of these instruments. Accounts receivable are classified as loans and receivables. Carrying value approximates fair value due to the short-term nature of these instruments.

Accounts payable and intercompany accounts payable are classified as other liabilities and measured at carrying value which approximates fair value due to the short-term nature of these instruments. Note payable to parent is classified as other liabilities and recorded at amortized cost. The related debt premium, discount and issue costs are included in the carrying value of the note payable and are recognized in interest expense using the effective interest rate method.

The Corporation selected October 5, 2007 as the initial date for the identification and recognition of embedded derivatives. As at December 31, 2007, the Corporation does not have any outstanding contracts or financial instruments with embedded derivatives.

2. Summary of Significant Accounting Policies (continued)

d. Revenue recognition

Revenue from natural gas and liquid sales is recorded in the financial statements upon completion of the delivery of natural gas and liquids to the customer. The Corporation acts as a principal in these sales transactions and assumes the risks and rewards of ownership.

e. Future accounting policy changes

The Canadian Institute of Chartered Accountants (CICA) has issued new accounting recommendations for disclosure and presentation of financial instruments, Section 3862 – Financial Instruments – Disclosures and Section 3863 – Financial Instruments – Presentation, which are effective for fiscal years beginning on or after October 1, 2007. These new standards require disclosures of both qualitative and quantitative information that enables financial statement users to evaluate the nature and extent of risks arising from financial instruments to which the Corporation is exposed.

Section 1535 – Capital Disclosures has been issued by the CICA and applies to fiscal years beginning on or after October 1, 2007. This section requires disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the Corporation's objectives, policies and processes for managing capital.

3. Property, Plant and Equipment

	2007 (thousands)		
	Cost	Accumulated Amortization	Net Book Value
Gathering and treatment	$ 5,762	$ 47	$ 5,715

4. Asset Retirement Obligation

The Corporation has estimated the future costs of decommissioning certain natural gas facilities. The timing of future decommissioning and settlement date of the obligation is conditional upon the Corporation's intended use for these facilities. Under certain market conditions, the Corporation may be required to reassess its intended use for these facilities. For purposes of estimating the fair value of this obligation at December 31, a settlement date of 2022 has been assumed.

As at December 31, the $274 thousand estimated future cash flow required to settle this obligation in 2022 was discounted to $145 thousand, applying a credit adjusted risk free rate of 4.3 per cent.

5. Note Payable to Parent

Years to Maturity	2007 Principal Outstanding	2007 Average Fixed Interest Rate
	(thousands)	(per cent)
1 - 5	$ -	-
6 - 10	3,575	4.7
	3,575	
Less due within one year	-	
	$ 3,575	

The effective interest rate on note payable to parent was 4.7 percent.

a. Maturity dates

Maturity dates are equivalent to interest rate repricing dates.

b. Interest expense

Interest expense was as follows:

	2007 (thousands)
Interest expense on long-term debt	$ 28
Interest expense on short-term debt	5
	$ 33

There was no cash interest paid during 2007 on long-term debt.

6. Share Capital

Authorized share capital consists of an unlimited number of Class A common shares. One hundred ninety-two thousand six hundred (192,600) shares are issued and outstanding.

7. Financial Instruments and Risk Management

a. Fair value of financial instruments

The fair value of the Corporation's financial instruments are listed below:

	2007	
	Carrying Amount	**Fair Value**
	(thousands)	
Note payable to parent	**$ 3,575**	**$ 3,628**

The fair value of the note payable to parent was based on the present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.

The fair values of other financial instruments, including cash, accounts receivable, and accounts payable approximate their carrying values due to the short-term nature of these instruments.

b. Credit risk management

The Corporation extends credit to its customers in the normal course of business and is at risk of loss in the event of non-performance by customers. At December 31, 2007 the maximum credit exposure to a single customer was $345 thousand.

8. Comprehensive Income

CICA Handbook Section 1530 – Comprehensive Income establishes standards for the reporting and disclosure of comprehensive income. The Corporation does not have any items that required separate recognition outside of net income, and as a result, the adoption of this section did not have any impact on the Corporation's financial statements. Comprehensive income is equivalent to net income for the year ended December 31, 2007.

9. Net Change in Non-Cash Working Capital

	2007 **(thousands)**
Accounts receivable	$ (1,751)
Accounts payable	2,044
Intercompany accounts payable	319
	$ 612

10. Related Party Transactions

Routine operating transactions with related parties are settled at exchange amounts which approximate prevailing market prices under normal trade terms.

a. Transactions with SaskEnergy Incorporated and its subsidiaries were as follows:

	2007 **(thousands)**
Interest expense	$ 33

b. Included in these financial statements are transactions with various Saskatchewan Crown corporations and departments related to the Corporation by virtue of common control by the Government of Saskatchewan (collectively referred to as related parties). These transactions include operating expenses of $13 thousand.

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Province of Saskatchewan on all of its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts and transactions due to and from related parties and the terms of settlement are described separately in these financial statements and the notes thereto.

11. Joint Venture

The following amounts have been included in these consolidated financial statements to account for the Corporation's 50 per cent proportionate share of the Kisbey Gas Gathering and Processing Facility, an unincorporated joint venture:

a. Consolidated statement of financial position

	2007 **(thousands)**
Current assets	$ 369
Property, plant and equipment	5,715
Current liabilities	(172)
Net investment in joint venture	$ 5,912

b. Consolidated statement of income

	2007 **(thousands)**
Revenues	$ 356
Expenses	(226)
Income from joint venture	$ 130

c. Consolidated statement of cash flows

	2007 **(thousands)**
Cash used in operations	$ -
Change in cash	$ -

12. Acquisition

On November 1, 2007, the Corporation acquired 50 per cent of an existing natural gas processing plant and gathering system, the Kisbey Gas Gathering and Processing Facility. This plant is operated through an unincorporated joint venture. The purchase price of $5,617 thousand was paid (net of holdbacks amounting to $550 thousand) and allocated to property, plant and equipment.

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SWAN VALLEY GAS CORPORATION

FINANCIAL STATEMENTS

December 31, 2007

Deloitte

Auditors' Report

To the Shareholder of Swan Valley Gas Corporation

We have audited the statement of financial position of Swan Valley Gas Corporation as at December 31, 2007 and the statements of income and deficit, comprehensive income, accumulated other comprehensive income and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP.

Chartered Accountants

Regina, Saskatchewan
February 15, 2008

SWAN VALLEY GAS CORPORATION
Statement of Financial Position

As at December 31
(thousands of dollars)

	2007	2006 (Restated)
Assets		
Current assets		
Cash	$ 353	$ -
Intercompany accounts receivable	1	113
Accounts receivable	224	197
	578	310
Property, plant and equipment (Note 5)	1,657	1,713
Debt retirement funds (Note 6)	11	-
	$ 2,246	$ 2,023
Liabilities and Shareholder's Equity		
Current liabilities		
Bank indebtedness	$ -	$ 20
Accounts payable	61	74
Intercompany accounts payable	199	103
Fair value of derivative instruments (Note 7)	15	-
	275	197
Note payable to parent (Note 8)	1,100	1,100
	1,375	1,297
Shareholder's equity		
Share capital (Note 9)	1,317	1,317
Deficit	(446)	(591)
	871	726
	$ 2,246	$ 2,023

(See accompanying notes)

On behalf of the Board:

Director

Director

SWAN VALLEY GAS CORPORATION
Statement of Income and Deficit

Years ended December 31
(thousands of dollars)

	2007	2006 (Restated)
Revenue		
Commodity sales	$ 844	$ 697
Delivery	864	858
Other (Note 8)	-	19
	1,708	1,574
Expenses		
Commodity cost of gas sold	775	601
Transportation	385	387
Operating and maintenance	305	238
Interest (Note 8)	29	-
Amortization (Note 5)	69	70
	1,563	1,296
Net income	145	278
Deficit, beginning of year, as restated (Note 4)	(591)	(869)
Deficit, end of year	$ (446)	$ (591)

(See accompanying notes)

SWAN VALLEY GAS CORPORATION
Statement of Comprehensive Income
Years ended December 31
(thousands of dollars)

	2007	2006
Net income	$ 145	$ 278
Other comprehensive income		
Gains and losses on derivative instruments designated as hedges for accounting purposes in prior years transferred to net income in the current year	20	-
Comprehensive income	$ 165	$ 278

SWAN VALLEY GAS CORPORATION
Statement of Accumulated Other Comprehensive Income
Years ended December 31
(thousands of dollars)

	2007	2006
Accumulated other comprehensive income, beginning of year	$ -	$ -
Transitional amounts for gains and losses on derivative instruments designated as hedges for accounting purposes in prior years	(20)	-
Other comprehensive income	20	-
Accumulated other comprehensive income, end of year	$ -	$ -

(See accompanying notes)

SWAN VALLEY GAS CORPORATION
Statement of Cash Flows

Years ended December 31
(thousands of dollars)

	2007	2006 (Restated)
Operating Activities		
Net income	$ **145**	$ 278
Add items not requiring an outlay of cash		
Amortization of property, plant and equipment (Note 5)	**69**	70
Other non-cash items	**15**	-
	229	348
Net change in non-cash working capital related to operations (Note 12)	**169**	68
Cash provided by operating activities	**398**	416
Investing Activities		
Decrease in short-term loan receivable from parent	**-**	295
Net additions to property, plant and equipment	**(20)**	(9)
Capital contributions received (Note 5)	**6**	1
Cash (used in) provided by investing activities	**(14)**	287
Financing Activities		
(Decrease) increase in bank indebtedness	**(20)**	20
Increase in note payable to parent	**-**	1,100
Debt retirement instalments	**(11)**	-
Redemption of common shares (Note 9)	**-**	(1,850)
Cash used in financing activities	**(31)**	(730)
Increase (decrease) in cash during the year	**353**	(27)
Cash position, beginning of year	**-**	27
Cash position, end of year	$ **353**	$ -

(See accompanying notes)

1. Status of the Corporation

Swan Valley Gas Corporation was created on November 30, 1999 under *The Corporations Act of Manitoba*. The Corporation is a wholly owned subsidiary of SaskEnergy Incorporated (SaskEnergy), a Saskatchewan provincial Crown corporation and therefore is not subject to Federal or Provincial income taxes in Canada.

The affairs of the Corporation are managed by its Board of Directors and the management of its parent, SaskEnergy.

The Corporation operates natural gas transmission and distribution facilities in the Swan Valley region of Manitoba. The Corporation contracts with SaskEnergy and its affiliated corporations for its natural gas supply, transportation and storage requirements. The Corporation takes delivery of natural gas at the inlet to its facilities approximately one kilometre east of the Manitoba-Saskatchewan border.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management periodically evaluates the estimates and assumptions used based on past experience and other factors considered reasonable under the circumstances. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods. The impact of rate regulation on the application of Canadian generally accepted accounting principles is described in note 13. The following accounting policies are considered to be significant:

a. Property, plant and equipment

Property, plant and equipment is stated at cost and includes all direct costs plus overhead charges and an allowance for interest costs related to financing construction of the related assets.

The costs of renewals and betterments which extend the economic useful life of assets are capitalized.

Retirement or sale of a major item or class of property, plant and equipment is accounted for by relieving the asset accounts of the associated cost and accumulated amortization. The difference between the proceeds and the net book value of the assets disposed is included in earnings for the current period.

Other asset retirements are recorded by reducing the account by the cost of the asset and charging this amount, net of proceeds received, to accumulated amortization.

2. Summary of Significant Accounting Policies (continued)

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rates are as follows: (in per cent)

General plant	5.0
Service lines and meters	3.5
Pressure regulation stations	3.0
Main lines	2.5

Capital contributions relate to construction of new natural gas distribution facilities. These contributions are amortized on a straight-line basis over the estimated service life of the related asset.

b. Financial instruments

The Corporation classifies its financial instruments into one of the following categories: 1) held-for-trading, 2) held-to-maturity, 3) loans and receivables, 4) available-for-sale, and 5) other liabilities.

All financial instruments are measured at fair value upon initial recognition. The fair value of a financial instrument is the amount at which the financial instrument could be exchanged in an arm's-length-transaction between knowledgeable and willing parties under no compulsion to act.

Financial assets and liabilities classified as held-for-trading are subsequently measured at fair value with changes in fair value recognized in net income. Financial assets classified as available-for-sale are subsequently measured at fair value with changes in fair value recognized in other comprehensive income. Financial assets classified as held-to-maturity and loans and receivables as well as financial liabilities classified as other liabilities are subsequently amortized using the effective interest method. All derivatives are recognized as an asset or liability on the trade date.

Transaction costs related to held-for-trading financial assets and liabilities are expensed as incurred. For all other financial instruments, transaction costs are included in the initial carrying amount.

Cash is classified as held-for-trading. Carrying value approximates fair value due to the short-term nature of these instruments. Accounts receivable and intercompany accounts receivable are classified as loans and receivables. Carrying value approximates fair value due to the short-term nature of these instruments. The debt retirement funds are classified as held-for-trading assets and recorded at fair value. The change in the fair value of the debt retirement funds is recognized in interest expense.

Bank indebtedness is classified as held-for-trading. Carrying value approximates fair value due to the short-term nature of these instruments. Accounts payable, intercompany accounts payable and short-term debt, are classified as other liabilities. Carrying value approximates fair value due to the short-term nature of these instruments. Long-term debt is classified as other liabilities and recorded at amortized cost. The related debt premium, discount and issue costs are included in the carrying value of the long-term debt and are recognized in interest expense using the effective interest rate method.

2. Summary of Significant Accounting Policies (continued)

Derivative financial instruments that do not qualify as a hedge and derivative financial instruments not designated as a hedge are classified as held-for trading and are recorded at fair value in the statement of financial position in accounts receivable or accounts payable as applicable. The change in the fair value of these derivatives (gain or loss) is recorded in net income and classified within the revenue or expense category to which they relate. The revenue and expense categories impacted are described in Note 6, Financial Instruments and Risk Management.

The Corporation selected January 1, 2003 as the transition date for the identification and recognition of embedded derivatives. Accordingly, only contracts or financial instruments entered into or modified after the transition date were reviewed for embedded derivatives. As at December 31, 2006 and December 31, 2007, the Corporation does not have any outstanding contracts or financial instruments with embedded derivatives.

c. Revenue recognition

Delivery and commodity sales revenue is recognized when natural gas is delivered to customers. An estimate of natural gas delivered, but not billed as at December 31, is included in revenue.

d. Cost of gas sold

The cost of gas sold includes the cost of purchasing natural gas, risk management derivative financial instrument settlements, fair value adjustments on outstanding risk management derivative financial and non-financial instruments, transportation, and an allocation of costs related to supply acquisition.

e. Future accounting policy changes

The Canadian Institute of Chartered Accountants (CICA) has issued new accounting recommendations for disclosure and presentation of financial instruments, Section 3862 – Financial Instruments - Disclosures and Section 3863 – Financial Instruments - Presentation, which are effective for fiscal years beginning on or after October 1, 2007. These new standards require disclosures of both qualitative and quantitative information that enables financial statement users to evaluate the nature and extent of risks arising from financial instruments to which the Corporation is exposed.

Section 1535 – Capital Disclosures has been issued by the CICA and applies to fiscal years beginning on or after October 1, 2007. This section requires disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the Corporation's objectives, policies and processes for managing capital.

3. Changes in Accounting Policies

Effective January 1, 2007, the Corporation adopted the new CICA Handbook Section 1506 – Accounting Changes in accordance with the transitional provisions of the section. Section 1506 allows for voluntary changes in accounting policy only if they result in the financial statements providing reliable and more relevant information and that new disclosures are required in respect of changes in accounting policies, changes in accounting estimates and correction of errors. The adoption of Section 1506 has had no material impact on these audited financial statements.

Effective January 1, 2007, the Corporation adopted the new CICA Handbook Section 1530 – Comprehensive Income, Section 3251 – Equity, Section 3855 – Financial Instruments - Recognition and Measurement, Section 3861 – Financial Instruments - Presentation and Disclosure, and Section 3865 – Hedges.

Section 1530 requires a new statement of Comprehensive Income and establishes Accumulated Other Comprehensive Income (AOCI) as a separate component of the Province of Saskatchewan's equity. The statement of comprehensive income reflects the changes in AOCI in the period. Changes in AOCI include transitional amounts for changes in the value of derivative instruments designated as hedges for accounting purposes in prior periods, and changes in the fair value of derivative instruments previously designated as cash flow hedges. These new standards require retrospective adoption without restatement.

The Corporation discontinued the use of hedge accounting on its natural gas derivative instruments on January 1, 2007. In accordance with the transitional rules upon the adoption of the new standards, as at January 1, 2007, $20 thousand of unfavourable fair value adjustments on previously designated natural gas hedges have been recorded in AOCI and were recognized in the same period the original hedged items were recognized in net income. Changes in the fair value of these natural gas derivatives since January 1, 2007 have been recognized in net income and included with commodity cost of gas sold.

Upon the adoption of the new standards, the impact on opening retained earnings of applying this change in accounting policy effective January 1, 2007 was as follows to recognize fair value adjustments on derivative instruments held-for-trading:

	January 1 2007 (thousands)
Fair value of derivative instruments - current liability	$ 20
Accumulated other comprehensive income, beginning of year	(20)
Total liabilities and equity	$ -

3. Changes in Accounting Policies (continued)

Upon the adoption of the new standards, the impact of applying this change in accounting policy for the year ended December 31, 2007 was as follows to recognize fair value adjustments on derivative instruments held-for-trading:

	December 31 2007 (thousands)
Gas marketing cost of gas sold	$ 15
Decrease in net income	$ (15)

4. Accounting Change

During 2007, the Corporation determined that a customer had been billed based on a volume of natural gas which exceeded the actual volumes consumed. An adjustment was made for $52 thousand, with $19 thousand related to 2007 and $33 thousand related to 2006. The prior period has been restated to reflect this adjustment.

The impact of this adjustment is recorded within the categories to which they relate and is as follows:

	December 31 2006 (thousands)
Commodity sales	$ (64)
Delivery	(7)
Commodity cost of gas sold	(38)
Net income	(33)
Accounts receivable	(33)
Deficit, end of year	(33)

5. Property, Plant and Equipment

	2007			2006		
	(thousands)					
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Main lines	$ 6,378	$ 1,080	$ 5,298	$ 6,371	$ 921	$ 5,450
Service lines and meters	1,280	277	1,003	1,268	233	1,035
Stations	687	138	549	687	118	569
General plant	32	11	21	32	9	23
	$ 8,377	$ 1,506	6,871	$ 8,358	$ 1,281	7,077
Less:						
Unamortized capital contributions			5,214			5,364
			$ 1,657			$ 1,713

a. Capital contributions

Customer capital contributions are required to be paid by customers to the Corporation to aid in construction of certain customer-specific facilities in accordance with established business policies.

	2007	2006
	(thousands)	
Balance, beginning of year	$ 5,364	$ 5,519
Contributions received	6	1
Amortization of contributions	(156)	(156)
Balance, end of year	$ 5,214	$ 5,364

b. Amortization

	2007	2006
	(thousands)	
Amortization of property, plant and equipment	$ 225	$ 226
Amortization of capital contributions	(156)	(156)
	$ 69	$ 70

The composite rate of amortization on property, plant and equipment (excluding the effect of capital contributions amortization) was 2.7 per cent during 2007 (2.7 per cent during 2006).

6. Debt Retirement Funds

The Corporation has received long-term debt from the Province of Saskatchewan's General Revenue Fund. The terms and conditions of this debt require (on an annual basis) the investment of an amount equal to one per cent of the related outstanding debt. This investment is referred to as a debt retirement fund. The yield on these investments was 3.8 per cent for 2007 (5.7 per cent for 2006).

Amounts required to be invested in the debt retirement fund in each of the next five years are as follows: (thousands)

2008	2009	2010	2011	2012
$ 11	$ 11	$ 11	$ 11	$ 11

Debt retirement funds were previously recorded in long-term debt. For the current year, along with comparative figures, the balance of debt retirement funds has been reclassified to long-term assets.

7. Financial Instruments and Risk Management

a. Fair value of financial instruments

The fair value of the Corporation's financial instruments is based on the present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.

	2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(thousands)			
Note payable to parent	$ 1,100	$ 1,092	$ 1,100	$ 1,096
Debt retirement funds	11	11	-	-

The fair values of the above instruments were based on the following:

i. Note payable to parent – The present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.

ii. Debt retirement funds – The market value of the investments held in the fund as at December 31.

7. Financial Instruments and Risk Management (continued)

b. Natural gas derivative instruments

The fair value of natural gas derivative instruments held-for-trading is calculated daily and is based on quoted market prices. For physical natural gas contracts notional values are an approximation of future net cash flows based on contract price multiplied by contract quantity. For other derivative financial instruments, the notional value is the difference between the contract price and the market price. Where contract prices are referenced to an index price that has not yet been fixed, the market price at December 31 has been used to estimate the contract price. In 2007, all derivative asset and liabilities held-for-trading are recorded on the statement of financial position at fair value.

As at December 31, 2007, natural gas derivative instruments held-for-trading had the following fair values, notional values and maturities.

	2008
	(thousands)
Physical natural gas contracts	
Fair value	(15)
Notional value	(388)

Fair value - increase (decrease)
Notional value - estimated net cash inflow (outflow)

The fair values of other financial instruments, including accounts receivable, bank indebtedness, accounts payable and dividend payable approximate their carrying values due to the short-term nature of the instruments.

The change in fair value of financial assets and liabilities is recorded in net income within the relevant revenue or expense category. For the years ended December 31 the impact on net income of these unrealized gains and losses was as follows:

	2007	**2006**
	(thousands)	
Commodity cost of gas sold	$ 15	$ -
Decrease in net income	$ (15)	$ -

7. Financial Instruments and Risk Management (continued)

c. Credit risk

The Corporation extends credit to its customers in the normal course of business and is at risk of loss in the event of non-performance by counterparties on certain of the financial instruments described above. To reduce its credit risk, the Corporation has established policies and procedures to monitor and limit the amount of credit extended to its customers. During 2007, the Corporation had one non-related customer from which it earned approximately 43.7 per cent of its revenue (2006 - 44.0 per cent).

8. Note Payable to Parent

	2007		2006	
	Principal Outstanding (thousands)	**Interest Rate (per cent)**	**Principal Outstanding (thousands)**	**Interest Rate (per cent)**
Note payable to parent	**$ 1,100**	4.35	$ 1,100	4.35

The effective interest rate on note payable to parent was 4.4 per cent.

a. Maturity date

The note payable to parent matures in 2016.

b. Principal repayments

There are no principal repayments due in any of the next five years.

c. Interest expense

Interest expense was as follows:

	2007	2006
	(thousands)	
Interest on note payable to parent	**$ 48**	$ 8
Interest earned on bank balance	**(10)**	(13)
Interest allocation to commodity cost of gas sold	**(9)**	(14)
	$ 29	$ (19)

Cash interest paid during 2007 on note payable to parent was $48 thousand (2006 - $8 thousand).

8. Note Payable to Parent (continued)

The Corporation has a Credit Facility Agreement with its parent, SaskEnergy, whereby it may borrow up to $1,000 thousand on a revolving basis. The Corporation pays interest at a rate determined by SaskEnergy which is equivalent to SaskEnergy's average rate on short-term notes borrowed from the Province of Saskatchewan. Under this agreement, the Corporation may make repayments at any time without penalty, and SaskEnergy may terminate the loans without notice.

9. Equity Advances

Authorized share capital consists of an unlimited number of common shares without nominal or par value. Issued share capital is as follows:

	Shares	2007	2006
		(thousands)	
Share capital, beginning of year	131,650	$ 1,317	$ 3,167
Redeemed during the year	-	-	(1,850)
Share capital, end of year	131,650	$ 1,317	$ 1,317

10. Accumulated Other Comprehensive Income

The balance in accumulated other comprehensive income consists of the following:

	2007	2006
	(thousands)	
Transitional amounts for gains and losses on derivative instruments designated as hedges for accounting purposes in prior periods	$ (20)	$ -
Amortization of derivative instruments designated as hedges in prior accounting periods	20	-
	$ -	$ -

11. Manitoba Taxes

	2007	2006
	(thousands)	
Property taxes	$ 98	$ 75

The above amounts do not include Manitoba Retail Sales Tax payments. The Corporation is not subject to Corporate Capital Tax.

12. Net Change in Non-Cash Working Capital

	2007	2006 (restated)
	(thousands)	
Accounts receivable	$ (27)	$ 125
Intercompany accounts receivable	112	5
Accounts payable	(12)	14
Intercompany accounts payable	96	(76)
	$ 169	$ 68

13. Related Party Transactions

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

Transactions with SaskEnergy and its subsidiaries were as follows:

	2007	2006
	(thousands)	
Natural gas commodity purchases	$ 444	$ 427
Transportation expense	504	493
Operating expenses	87	97
Interest revenue	-	7
Interest expense	37	-
Intercompany accounts receivable	1	113
Intercompany accounts payable	199	103

In addition, the Corporation pays Manitoba Retail Sales Tax to the Province of Manitoba on all of its taxable purchases. Taxes are recorded as part of the cost of those purchases.

14. Rate Regulation

The business activities of the Corporation are regulated by the Manitoba Public Utilities Board (MPUB).

The Corporation follows Canadian generally accepted accounting principles for its regulated operations which may differ from those otherwise expected in non-regulated businesses. These differences occur when the regulatory agency exercises its statutory authority and renders specific accounting and other rate-making decisions. In addition to defining certain accounting requirements, the regulatory agency has jurisdiction over a number of other principal matters, which include but are not limited to, the rates to be charged for the sale and distribution of natural gas and approval and recovery of costs for major construction and operations.

a. For rate-setting purposes, the Corporation's approved gas consumption charge for natural gas is based on the principle that over the long term it neither profits from nor incurs a loss on sale.

   The Purchase Gas Variance Account (PGVA) accumulates differences between commodity sales revenue and the commodity cost of gas sold. Subject to approval of MPUB, balances accumulated in the PGVA are either recovered from or refunded to customers through future rates.

   The PGVA has an accumulated receivable balance, for regulatory purposes, of $238 thousand as at December 31, 2007 (2006 - $295 thousand) consisting primarily of prior years' unrecovered transportation costs. There was a $57 thousand recovery during 2007 ($122 thousand recovery during 2006). The PGVA has not been recorded as a regulatory receivable in these financial statements due to uncertainty as to whether or not this amount will actually be recovered.

15. Comparative Figures

Certain of the prior year amounts have been reclassified to conform to the current year's presentation.

SASKATCHEWAN FIRST CALL CORPORATION

FINANCIAL STATEMENTS

December 31, 2007

Deloitte

Auditors' Report

To the Shareholder of Saskatchewan First Call Corporation

We have audited the statement of financial position of Saskatchewan First Call Corporation as at December 31, 2007 and the statements of income and comprehensive income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP.

Chartered Accountants

Regina, Saskatchewan
February 15, 2008

SASKATCHEWAN FIRST CALL CORPORATION

Statement of Financial Position

As at December 31
(thousands of dollars)

	2007	2006
Assets		
Current assets		
Cash	$ 115	$ -
Accounts receivable	14	14
Intercompany accounts receivable	7	28
Prepaid expenses	13	13
	149	55
Property, plant and equipment (Note 3)	5	35
	$ 154	$ 90
Liabilities and Shareholder's Equity		
Current liabilities		
Bank indebtedness	$ -	$ 36
Accounts payable	11	12
Intercompany accounts payable	16	-
	27	48
Shareholder's equity		
Share capital (Note 4)	1	1
Retained earnings	126	41
	127	42
	$ 154	$ 90

(See accompanying notes)

On behalf of the Board:

Director

Director

SASKATCHEWAN FIRST CALL CORPORATION

Statement of Income and Comprehensive Income and Retained Earnings

Years ended December 31
(thousands of dollars)

	2007	2006
Revenue		
Notification service revenue	$ 491	$ 424
Expenses		
Operating and maintenance	383	368
Amortization (Note 3)	23	26
Interest	-	3
	406	397
Net income and comprehensive income	85	27
Retained earnings, beginning of year	41	14
Retained earnings, end of year	$ 126	$ 41

(See accompanying notes)

SASKATCHEWAN FIRST CALL CORPORATION

Statement of Cash Flows

Years ended December 31
(thousands of dollars)

	2007	2006
Operating Activities		
Net income	$ 85	$ 27
Add item not requiring an outlay of cash		
Amortization	23	26
	108	53
Net change in non-cash working capital related to operations (Note 7)	36	(22)
Cash provided by operating activities	144	31
Investing Activities		
Reduction in property, plant and equipment	7	-
Cash provided by investing activities	7	-
Financing Activities		
Short-term loan payable to parent	-	(115)
(Decrease) increase in bank indebtedness	(36)	36
Cash used in financing activities	(36)	(79)
Increase (decrease) in cash during the year	115	(48)
Cash position, beginning of year	-	48
Cash position, end of year	$ 115	$ -

(See accompanying notes)

1. Status of the Corporation

Saskatchewan First Call Corporation was created on April 5, 2002 under *The Saskatchewan Business Corporations Act*. The Corporation is a wholly owned subsidiary of SaskEnergy Incorporated (SaskEnergy), a Saskatchewan provincial Crown corporation, and therefore is not subject to Federal or Provincial income taxes in Canada.

The affairs of the Corporation are managed by its Board of Directors and the management of its parent, SaskEnergy.

The Corporation has established a database for the location of certain underground utility facilities and oil, gas and other pipeline systems located in Saskatchewan. Primarily for safety reasons, the Corporation provides a service whereby landowners and other stakeholders may contact the Corporation to determine the location of underground facilities.

The Corporation recovers its costs of operation from subscriber companies participating in this notification service.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management periodically evaluates the estimates and assumptions used based on past experience and other factors considered reasonable under the circumstances. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods. The following accounting policies are considered to be significant:

a. Property, plant and equipment

Property, plant and equipment is stated at cost and includes all direct costs plus overhead charges and an allowance for interest costs related to financing construction of the related assets.

The costs of renewals and betterments which extend the economic useful life of assets are capitalized.

Retirement or sale of a major item or class of property, plant and equipment is accounted for by relieving the asset accounts of the associated cost and accumulated amortization. The difference between the proceeds and the net book value of the assets disposed is included in income for the current period.

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rate is as follows (in per cent):

Computer hardware and software	20.0

2. Summary of Significant Accounting Policies (continued)

b. Financial instruments

The Corporation classifies its financial instruments into one of the following categories: 1) held-for-trading, 2) held-to-maturity, 3) loans and receivables, 4) available-for-sale, and 5) other liabilities.

Financial assets and liabilities classified as held-for-trading are subsequently measured at fair value with changes in fair value recognized in net income. Financial assets classified as available-for-sale are subsequently measured at fair value with changes in fair value recognized in other comprehensive income. Financial assets classified as held-to-maturity and loans and receivables as well as financial liabilities classified as other liabilities are subsequently amortized using the effective interest method. All derivatives are recognized as an asset or liability on the trade date.

Transaction costs related to held-for-trading financial assets and liabilities are expensed as incurred. For all other financial instruments, transaction costs are included in the initial carrying amount.

Cash is classified as held-for-trading. Carrying value approximates fair value due to the short-term nature of these instruments. Accounts receivable, and intercompany accounts receivable are classified as loans and receivables. Carrying value approximates fair value due to the nature of these instruments.

Bank indebtedness is classified as held-for-trading. Carrying value approximates fair value due to the short-term nature of these instruments. Accounts payable, and intercompany accounts payable are classified as other liabilities. Carrying value approximates fair value due to the short-term nature of these instruments.

The Corporation selected January 1, 2003 as the transition date for the identification and recognition of embedded derivatives. Accordingly, only contracts or financial instruments entered into or modified after the transition date were reviewed for embedded derivatives. As at December 31, 2006 and December 31, 2007, the Corporation does not have any outstanding contracts or financial instruments with embedded derivatives.

c. Revenue recognition

Revenue is recognized when a subscriber company receives notification of an intention to excavate near its facilities. An estimate of notification services rendered, but not billed as at December 31, is included in revenue.

2. Summary of Significant Accounting Policies (continued)

d. Future accounting policy changes

The Canadian Institute of Chartered Accountants (CICA) has issued new accounting recommendations for disclosure and presentation of financial instruments, Section 3862 – Financial Instruments - Disclosures and Section 3863 – Financial Instruments - Presentation, which are effective for fiscal years beginning on or after October 1, 2007. These new standards require disclosures of both qualitative and quantitative information that enables financial statement users to evaluate the nature and extent of risks arising from financial instruments to which the Corporation is exposed.

Section 1535 – Capital Disclosures has been issued by the CICA and applies to fiscal years beginning on or after October 1, 2007. This section requires disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the Corporation's objectives, policies and processes for managing capital.

3. Property, Plant and Equipment

	2007			2006		
	(thousands)					
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer hardware and software	$ 122	$ 117	$ 5	$ 129	$ 94	$ 35

The composite rate of amortization was 20.0 per cent during 2007 (20.0 per cent during 2006).

4. Share Capital

Authorized share capital consists of an unlimited number of Class A voting common shares without nominal or par value. One hundred (100) shares are issued and outstanding.

5. Comprehensive Income

CICA Handbook Section 1530 – Comprehensive Income establishes standards for the reporting and disclosure of comprehensive income. The Corporation does not have any items that require separate recognition outside of net income, and, as a result, the adoption of this section did not have any impact on the Corporation's financial statements. Comprehensive income is equivalent to net income for the year ended December 31, 2007.

6. Net Change in Non-Cash Working Capital

	2007	2006
	(thousands)	
Accounts receivable	$ -	$ (4)
Intercompany accounts receivable	21	(17)
Accounts payable	(1)	(1)
Intercompany accounts payable	16	-
	$ 36	$ (22)

7. Related Party Transactions

a. Included in these financial statements are transactions with SaskEnergy and its subsidiaries.

Routine operating transactions with these related parties are settled at exchange amounts which approximate prevailing market prices under normal trade terms. Amounts outstanding at year end with SaskEnergy and its subsidiaries have been shown as intercompany accounts receivable and payable on the statement of financial position. Transactions during the year, and amounts outstanding at year end, are as follows:

	2007	2006
	(thousands)	
Revenue	$ 332	$ 289
Operating expenses	314	276
Interest (revenue) expense	(1)	3

7. Related Party Transactions (continued)

b. Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties).

Routine operating transactions with these related parties are settled at exchange amounts which approximate prevailing market prices under normal trade terms. Transactions during the year, and amounts outstanding at year end, are as follows:

	2007	2006
	(thousands)	
Revenue	$ 115	$ 95
Operating expenses	35	52
Accounts receivable	3	7
Accounts payable	3	5

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Province of Saskatchewan on all of its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts and transactions due to and from related parties and the terms of settlement are described separately in these financial statements and the notes thereto.

SASKENERGY INTERNATIONAL INCORPORATED

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007

Deloitte

Auditors' Report

To the Shareholder of SaskEnergy International Incorporated

We have audited the consolidated statement of financial position of SaskEnergy International Incorporated as at December 31, 2007 and the consolidated statements of income and deficit, comprehensive loss, accumulated other comprehensive loss and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP.

Chartered Accountants

Regina, Saskatchewan
February 15, 2008

SASKENERGY INTERNATIONAL INCORPORATED

Consolidated Statement of Financial Position

As at December 31
(thousands of dollars)

	2007	2006 (Restated)
Assets		
Current assets		
Accounts receivable	$ 3	$ 13
	3	13
Long-term investments (Note 4)	24,181	25,145
	$ 24,184	$ 25,158
Liabilities and Shareholder's Equity		
Current liabilities		
Bank indebtedness	$ 2,061	$ 1,673
Accounts payable	132	125
Intercompany accounts payable	33	30
	2,226	1,828
Shareholder's equity		
Accumulated other comprehensive loss (Note 5)	(5,079)	(2,066)
Deficit	(2,347)	(3,988)
	(7,426)	(6,054)
Share capital (Note 6)	29,384	29,384
	21,958	23,330
	$ 24,184	$ 25,158

Commitments (Note 7)

(See accompanying notes)

On behalf of the Board:

Director

Director

SASKENERGY INTERNATIONAL INCORPORATED

Consolidated Statement of Income and Deficit

Years ended December 31
(thousands of dollars)

	2007	2006
Revenue		
Share of equity investments' net income (Note 4)	$ 2,049	$ 1,174
Expenses		
Operating	327	335
Interest (Note 8)	81	61
	408	396
Net income	1,641	778
Deficit, beginning of year	(3,988)	(4,766)
Deficit, end of year	$ (2,347)	$ (3,988)

(See accompanying notes)

SASKENERGY INTERNATIONAL INCORPORATED
Consolidated Statement of Comprehensive Loss

Years ended December 31
(thousands of dollars)

	2007	2006
Net income	$ 1,641	$ 778
Other comprehensive loss		
Unrealized losses on translating financial statements of self-sustaining foreign operations	(3,013)	(439)
Comprehensive (loss) income	$ (1,372)	$ 339

SASKENERGY INTERNATIONAL INCORPORATED
Consolidated Statement of Accumulated Other Comprehensive Loss

Years ended December 31
(thousands of dollars)

	2007	2006
Accumulated other comprehensive loss, beginning of year	$ (2,066)	$ (1,627)
Other comprehensive loss	(3,013)	(439)
Accumulated other comprehensive loss, end of year	$ (5,079)	$ (2,066)

(See accompanying notes)

SASKENERGY INTERNATIONAL INCORPORATED
Consolidated Statement of Cash Flows

Years ended December 31
(thousands of dollars)

	2007	2006
Operating Activities		
Net income	$ **1,641**	$ 778
Deduct items not requiring an outlay of cash		
Share of equity investments' net income	**(2,049)**	(1,174)
	(408)	(396)
Net change in non-cash working capital related to operations (Note 9)	**20**	(181)
Cash used in operating activities	**(388)**	(577)
Financing Activities		
Increase in bank indebtedness	**388**	1,673
Decrease in short-term loans payable to parent	**-**	(1,190)
Cash provided by financing activities	**388**	483
Decrease in cash during the year	**-**	(94)
Cash position, beginning of year	**-**	94
Cash position, end of year	$ **-**	$ -

(See accompanying notes)

1. Status of the Corporation

SaskEnergy International Incorporated was incorporated under *The Canada Business Corporations Act* on February 17, 1981 and commenced international operations on March 1, 1996. SaskEnergy International Incorporated is a wholly owned subsidiary of SaskEnergy Incorporated (SaskEnergy), a Saskatchewan provincial Crown corporation and therefore is not subject to Federal or Provincial income taxes in Canada.

The Corporation is dependent upon the financial support of SaskEnergy.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management periodically evaluates the estimates and assumptions used based on past experience and other factors considered reasonable under the circumstances. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods. The following accounting policies are considered to be significant:

a. Principles of consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries, SaskEnergy Mexican Holdings Ltd, SaskEnergy Chilean Holdings I Ltd. and SaskEnergy Chilean Holdings II Ltd.

b. Long-term investments

The Corporation accounts for its investments in Gas Sur S.A. and Igasamex USA Ltd. using the equity method.

c. Financial instruments

The Corporation classifies its financial instruments into one of the following categories: 1) held-for-trading, 2) held-to-maturity, 3) loans and receivables, 4) available-for-sale, and 5) other liabilities.

All financial instruments are measured at fair value upon initial recognition. The fair value of a financial instrument is the amount at which the financial instrument could be exchanged in an arm's-length-transaction between knowledgeable and willing parties under no compulsion to act.

Financial assets and liabilities classified as held-for-trading are subsequently measured at fair value with changes in fair value recognized in net income. Financial assets classified as available-for-sale are subsequently measured at fair value with changes in fair value recognized in other comprehensive income. Financial assets classified as held-to-maturity and loans and receivables as well as financial liabilities classified as other liabilities are subsequently amortized using the effective interest method. All derivatives are recognized as an asset or liability on the trade date.

2. Summary of Significant Accounting Policies (continued)

Transaction costs related to held-for-trading financial assets and liabilities are expensed as incurred. For all other financial instruments, transaction costs are included in the initial carrying amount.

Cash is classified as held-for-trading. Carrying value approximates fair value due to the short-term nature of these instruments. Accounts receivable are classified as loans and receivables. Carrying value approximates fair value due to the short-term nature of these instruments.

Bank indebtedness is classified as held-for-trading. Carrying value approximates fair value due to the short-term nature of these instruments. Accounts payable and intercompany accounts payable are classified as other liabilities. Carrying value approximates fair value due to the short-term nature of these instruments.

The Corporation selected January 1, 2003 as the transition date for the identification and recognition of embedded derivatives. Accordingly, only contracts or financial instruments entered into or modified after the transition date were reviewed for embedded derivatives. As at December 31, 2006 and December 31, 2007, the Corporation does not have any outstanding contracts or financial instruments with embedded derivatives.

The Corporation's foreign investments are self-sustaining, and the financial statements are translated from the functional currency into Canadian dollars using the current rate method. Translation adjustments resulting from changes in the exchange rate between the functional currency and the Canadian dollar are reflected in accumulated other comprehensive income in the Shareholder's Equity.

d. Employees' future benefits

The Corporation provides a defined contribution pension plan for all eligible employees. The defined contribution pension plan is governed by *The Public Employees Pension Plan Act and Regulations*.

Under the plan the Corporation's obligations are limited to making regular payments to the plans for current services. When made, these contributions are charged to expenses.

The cost of future retirement allowance benefits earned by employees is actuarially determined using the projected benefit method and management's best estimates.

e. Future accounting policy changes

The Canadian Institute of Chartered Accountants (CICA) has issued new accounting recommendations for disclosure and presentation of financial instruments, Section 3862 – Financial Instruments - Disclosures and Section 3863 – Financial Instruments - Presentation, which are effective for fiscal years beginning on or after October 1, 2007. These new standards require disclosures of both qualitative and quantitative information that enables financial statement users to evaluate the nature and extent of risks arising from financial instruments to which the Corporation is exposed.

2. Summary of Significant Accounting Policies (continued)

Section 1535 – Capital Disclosures has been issued by the CICA and applies to fiscal years beginning on or after October 1, 2007. This section requires disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the Corporation's objectives, policies and processes for managing capital.

3. Changes in Accounting Policies

Effective January 1, 2007, the Corporation adopted the new CICA Handbook Section 1506 – Accounting Changes in accordance with the transitional provisions of the section. Section 1506 allows for voluntary changes in accounting policy only if they result in the financial statements providing reliable and more relevant information and that new disclosures are required in respect of changes in accounting policies, changes in accounting estimates and correction of errors. The adoption of Section 1506 has had no material impact on these audited consolidated financial statements.

Effective January 1, 2007, the Corporation adopted the new CICA Handbook Section 1530 – Comprehensive Income, Section 3251 – Equity, Section 3855 – Financial Instruments - Recognition and Measurement, Section 3861 – Financial Instruments - Presentation and Disclosure, and Section 3865 – Hedges.

Section 1530 requires a new statement of Comprehensive Income and establishes Accumulated Other Comprehensive Income (AOCI) as a separate component of the Shareholder's equity. The statement of comprehensive income reflects the changes in AOCI in the period. Changes in AOCI include the unrealized gains and losses on translating financial statements of self-sustaining foreign operations.

The effect of retrospective adoption was reclassification of an accumulated loss of $2,066 thousand as at December 31, 2006 from foreign currency translation adjustment to accumulated other comprehensive loss.

4. Long-Term Investments

Long-term investments are as follows:

	2007		2006	
	Amount (thousands)	Per cent Ownership	Amount (thousands)	Per cent Ownership
Equity investment				
Gas Sur S.A.				
Initial investment	$ 13,784	30.0	$ 13,784	30.0
Accumulated equity earnings	2,773		1,506	
Foreign currency translation adjustment	(1,964)		(597)	
	14,593		14,693	
Igasamex USA LTD.				
Initial investment	10,880	40.1	10,880	40.1
Accumulated equity earnings	1,823		1,041	
Foreign currency translation adjustment	(3,115)		(1,469)	
	9,588		10,452	
	$ 24,181		$ 25,145	

a. Gas Sur S.A.

The Corporation's 30.0 per cent share of Gas Sur S.A.'s 2007 net income was $1,267 thousand (2006 - $642 thousand). The Corporation's share of the foreign currency translation adjustment for 2007 resulted in a $1,367 thousand reduction in the balance of the investment in Gas Sur S.A. (2006 - $479 thousand reduction).

The cost of the investment exceeded the Corporation's underlying share of the net book value of Gas Sur S.A. by approximately $5,100 thousand (2006 - $5,100 thousand).

b. Igasamex USA Ltd.

The Corporation's 40.1 per cent share of Igasamex USA Ltd.'s 2007 net income was $782 thousand (2006 - $532 thousand). The Corporation's share of the foreign currency translation adjustment for 2007 resulted in a $1,646 thousand reduction in the balance of the investment in Igasamex USA Ltd. (2006 - $40 thousand increase).

The cost of the investment exceeded the Corporation's underlying share of the net book value of Igasamex USA Ltd. by approximately $4,800 thousand (2006 - $4,800 thousand).

5. Accumulated Other Comprehensive Loss

The balance in accumulated other comprehensive loss consists of the following:

	2007	2006
	(thousands)	
Unrealized losses on translating financial statements of self-sustaining foreign operations	$ (5,079)	$ (2,066)

6. Share Capital

Authorized share capital consists of an unlimited number of Class A common shares without nominal or par value. There were 2,938,432 shares (2006 - 2,938,432) issued and outstanding.

7. Commitments

The Corporation, through its subsidiary SaskEnergy Mexican Holdings Ltd., has posted a $4,008 thousand (United States dollar denominated) letter of credit in favour of Scotiabank Inverlat S.A., a Mexican bank. The letter of credit was used as collateral for the Corporation's share of a line of credit issued to Igasamex USA Ltd. Scotiabank Inverlat S.A. may draw upon this letter of credit if Igasamex USA Ltd. defaults under the terms of its loan agreement with Scotiabank Inverlat S.A.

8. Interest Expense

During the year, the Corporation made cash payments for interest to the parent of $79 thousand (2006 - $57 thousand).

The Corporation has a Credit Facility Agreement with its parent, SaskEnergy whereby it may borrow $100,000 thousand on a revolving basis. The Corporation pays an interest rate determined by SaskEnergy which is equivalent to SaskEnergy's average rate on short-term notes borrowed from the Province of Saskatchewan. Under this agreement the Corporation may make repayments at any time without penalty and SaskEnergy may terminate the loans without notice.

9. Net Change in Non-Cash Working Capital

	2007	2006
	(thousands)	
Accounts receivable	$ 10	$ 2
Accounts payable	7	13
Intercompany accounts payable	3	(196)
	$ 20	$ (181)

10. Financial Instruments

The carrying values of the Corporation's financial instruments (accounts receivable, bank indebtedness, accounts payable and intercompany accounts payable) approximate fair value due to their relatively short-term nature.

11. Related Party Transactions

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

Transactions with SaskEnergy and its subsidiaries were as follows:

	2007	2006
	(thousands)	
Corporate expenses	$ 44	$ 51
Interest expense	$ 81	$ 60

These items have been recorded at their exchange amounts. Amounts outstanding at year end have been shown as intercompany accounts payable on the statement of financial position.

12. Employees' Future Benefits

a. Pension plans

All employees of the Corporation are members of the defined contribution pension plan. During the year, the Corporation contributed $10 thousand (2006 - $9 thousand) on behalf of employees for current services.

b. Retiring allowance plan

The defined benefit retiring allowance plan for management employees is as follows:

	2007	2006
	(thousands)	
Accrued benefit liability	**$ 81**	$ 63
Benefits paid during the year	**-**	-
Net expense	**18**	13

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit liability at December 31 are:

	2007	2006
Discount rate	5.0 per cent	4.5 per cent
Inflation rate	2.5 per cent	2.5 per cent
Average remaining employee service life	7.5 years	6.4 years

Effective January 1, 2006 the retiring allowance for management employees was converted to an annual contribution to a registered savings plan. For these employees, the length of service earned for the purpose of the retiring allowance plan is equal to their service up to and including December 31, 2005. Entitlements, under the retiring allowance plan, earned to December 31, 2005 will be paid out to management employees upon their retirement in accordance with the terms of the plan.

13. Comparative Figures

Certain of the prior year's figures have been reclassified to conform with the current year's presentation.

SASKENERGY CHILEAN HOLDINGS I LTD.

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007

Deloitte

Auditors' Report

To the Shareholder of SaskEnergy Chilean Holdings I Ltd.

We have audited the consolidated statement of financial position of SaskEnergy Chilean Holdings I Ltd. as at December 31, 2007 and the consolidated statements of income and retained earnings, comprehensive loss, accumulated other comprehensive loss and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP.

Chartered Accountants

Regina, Saskatchewan
February 15, 2008

SASKENERGY CHILEAN HOLDINGS I LTD.

Consolidated Statement of Financial Position

As at December 31

(thousands of dollars)

	2007	2006 (Restated)
Assets		
Long-term investment (Note 4)	$ 14,451	$ 14,551
Liabilities and Shareholder's Equity		
Minority interest (Note 5)	$ 14	$ 14
Shareholder's equity		
Accumulated other comprehensive loss (Note 6)	$ (1,962)	$ (596)
Retained earnings	2,770	1,504
	808	908
Share capital (Note 7)	13,629	13,629
	14,437	14,537
	$ 14,451	$ 14,551

Commitment (Note 8)

(See accompanying notes)

On behalf of the Board:

Director

Director

SASKENERGY CHILEAN HOLDINGS I LTD.

Consolidated Statement of Income and Retained Earnings

Years ended December 31
(thousands of dollars)

	2007	2006
Share of equity investment net income (Note 4)	**$ 1,267**	$ 642
Minority interest (Note 5)	**(1)**	(1)
Net income	**1,266**	641
Retained earnings, beginning of year	**1,504**	863
Retained earnings, end of year	**$ 2,770**	$ 1,504

(See accompanying notes)

SASKENERGY CHILEAN HOLDINGS I LTD.
Consolidated Statement of Comprehensive Loss

Years ended December 31
(thousands of dollars)

	2007	2006
Net income	$ 1,266	$ 641
Other comprehensive loss		
Unrealized losses on translating financial statements of self-sustaining foreign operations	(1,366)	(478)
Comprehensive (loss) income	$ (100)	$ 163

SASKENERGY CHILEAN HOLDINGS I LTD.
Consolidated Statement of Accumulated Other Comprehensive Loss

Years ended December 31
(thousands of dollars)

	2007	2006
Accumulated other comprehensive loss, beginning of year	$ (596)	$ (118)
Other comprehensive loss	(1,366)	(478)
Accumulated other comprehensive loss, end of year	$ (1,962)	$ (596)

(See accompanying notes)

SASKENERGY CHILEAN HOLDINGS I LTD.

Consolidated Statement of Cash Flows

Years ended December 31
(thousands of dollars)

	2007	2006
Operating Activities		
Net income	$ 1,266	$ 641
Deduct non-cash item		
Minority interest share of equity interest income	1	1
Share of equity investment net income	(1,267)	(642)
Cash provided by operating activities	-	-
Increase in cash during the year	-	-
Cash position, beginning of year	-	-
Cash position, end of year	$ -	$ -

(See accompanying notes)

1. Status of the Corporation

SaskEnergy Chilean Holdings I Ltd. was created on August 27, 1996 under *The Canada Business Corporations Act*. The Corporation is a wholly owned subsidiary of SaskEnergy International Incorporated. SaskEnergy International Incorporated is a wholly owned subsidiary of SaskEnergy Incorporated, a Saskatchewan provincial Crown corporation, and therefore is not subject to Federal or Provincial income taxes in Canada.

The affairs of the Corporation are managed by the Board of Directors and the management of SaskEnergy International Incorporated.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management periodically evaluates the estimates and assumptions used based on past experience and other factors considered reasonable under the circumstances. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods. The following accounting policies are considered to be significant:

a. Principles of consolidation

The consolidated financial statements include the accounts of the Corporation and a Chilean limited partnership, SaskEnergy Chilean Holdings Limitada (99.9 per cent ownership interest). The 0.1 per cent minority interest in SaskEnergy Chilean Holdings Limitada is held by SaskEnergy Chilean Holdings II Ltd. (an affiliate).

b. Long-term investment

The Corporation accounts for its investment in Gas Sur S.A. using the equity method.

c. Financial instruments

The Corporation classifies its financial instruments into one of the following categories: 1) held-for-trading, 2) held-to-maturity, 3) loans and receivables, 4) available-for-sale, and 5) other liabilities.

All financial instruments are measured at fair value upon initial recognition. The fair value of a financial instrument is the amount at which the financial instrument could be exchanged in an arm's-length-transaction between knowledgeable and willing parties under no compulsion to act.

Financial assets and liabilities classified as held-for-trading are subsequently measured at fair value with changes in fair value recognized in net income. Financial assets classified as available-for-sale are subsequently measured at fair value with changes in fair value recognized in other comprehensive income. Financial assets classified as held-to-maturity and loans and receivables as well as financial liabilities classified as other liabilities are subsequently amortized using the effective interest method. All derivatives are recognized as an asset or liability on the trade date.

2. Summary of Significant Accounting Policies (continued)

Transaction costs related to held-for-trading financial assets and liabilities are expensed as incurred. For all other financial instruments, transaction costs are included in the initial carrying amount.

The Corporation selected January 1, 2003 as the transition date for the identification and recognition of embedded derivatives. Accordingly, only contracts or financial instruments entered into or modified after the transition date were reviewed for embedded derivatives. As at December 31, 2006 and December 31, 2007, the Corporation does not have any outstanding contracts or financial instruments with embedded derivatives.

The Corporation's foreign investments are self-sustaining, and the financial statements are translated from the functional currency into Canadian dollars using the current rate method. Translation adjustments resulting from changes in the exchange rate between the functional currency and the Canadian dollar are reflected in accumulated other comprehensive loss in the Shareholder's Equity.

d. Future accounting policy changes

The Canadian Institute of Chartered Accountants (CICA) has issued new accounting recommendations for disclosure and presentation of financial instruments, Section 3862 – Financial Instruments - Disclosures and Section 3863 – Financial Instruments - Presentation, which are effective for fiscal years beginning on or after October 1, 2007. These new standards require disclosures of both qualitative and quantitative information that enables financial statement users to evaluate the nature and extent of risks arising from financial instruments to which the Corporation is exposed.

Section 1535 – Capital Disclosures has been issued by the CICA and applies to fiscal years beginning on or after October 1, 2007. This section requires disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the Corporation's objectives, policies and processes for managing capital.

3. Changes in Accounting Policies

Effective January 1, 2007, the Corporation adopted the new CICA Handbook Section 1506 – Accounting Changes in accordance with the transitional provisions of the section. Section 1506 allows for voluntary changes in accounting policy only if they result in the financial statements providing reliable and more relevant information and that new disclosures are required in respect of changes in accounting policies, changes in accounting estimates and correction of errors. The adoption of Section 1506 has had no material impact on these audited consolidated financial statements.

Effective January 1, 2007, the Corporation adopted the new CICA Handbook Section 1530 – Comprehensive Income, Section 3251 – Equity, Section 3855 – Financial Instruments - Recognition and Measurement, Section 3861 – Financial Instruments - Presentation and Disclosure, and Section 3865 – Hedges.

3. Changes in Accounting Policies (continued)

Section 1530 requires a new statement of Comprehensive Income and establishes Accumulated Other Comprehensive Income (AOCI) as a separate component of the Shareholder's equity. The statement of comprehensive income reflects the changes in AOCI in the period. Changes in AOCI include the unrealized gains and losses on translating financial statements of self-sustaining foreign operations.

The effect of retrospective adoption was reclassification of an accumulated loss of $596 thousand as at December 31, 2006 from foreign currency translation adjustment to accumulated other comprehensive loss.

4. Long-Term Investment

As at December 31, the 30.0 per cent equity investment in Gas Sur S.A. was as follows:

	2007	**2006**
	(thousands)	
Equity investment	**$ 13,642**	$ 13,642
Accumulated equity earnings	**2,773**	1,506
Currency translation adjustment	**(1,964)**	(597)
	$ 14,451	$ 14,551

The Corporation's share of the foreign currency translation adjustment for 2007 resulted in a $1,367 thousand reduction in the balance of the investment in Gas Sur S.A. (2006 - $479 thousand reduction). The Corporation's 30.0 per cent share of Gas Sur S.A.'s 2007 net income was $1,267 thousand (2006 - $642 thousand).

The cost of the investment exceeded the Corporation's underlying share of the net book value of Gas Sur S.A. by approximately $5,100 thousand (2006 - $5,100 thousand).

5. Minority Interest

The Corporation has a 99.9 per cent ownership interest in SaskEnergy Chilean Holdings Limitada. SaskEnergy Chilean Holdings II Ltd. (an affiliate) owns the remaining 0.1 per cent interest. The minority interest is SaskEnergy Chilean Holdings II Ltd.'s 0.1 per cent share interest in SaskEnergy Chilean Holdings Limitada.

As at December 31, the 0.1 per cent minority interest was as follows:

	2007	2006
	(thousands)	
Minority interest, beginning of year	**$ 14**	$ 14
Minority interest share of equity income	**1**	1
Minority interest share of currency translation adjustment	**(1)**	(1)
Minority interest, end of year	**$ 14**	$ 14

6. Accumulated Other Comprehensive Loss

The balance in accumulated other comprehensive loss consists of the following:

	2007	2006
	(thousands)	
Unrealized losses on translating financial statements of self-sustaining foreign operations	**$ (1,962)**	$ (596)

7. Share Capital

Authorized share capital consists of an unlimited number of Class A common shares without nominal or par value. At December 31, 2007, 1,362,867.9 shares (2006 - 1,362,867.9) are issued and outstanding.

8. Commitment

SaskEnergy Incorporated has granted a guarantee related to certain obligations established under the Gas Sur S.A. Shareholders' Agreement. The guarantee is expressly limited to $5,000 thousand United States dollars.

9. Comparative Figures

Certain of the prior year's figures have been reclassified to conform with the current year's presentation.

SASKENERGY CHILEAN HOLDINGS II LTD.

FINANCIAL STATEMENT

December 31, 2007

Deloitte

Auditors' Report

To the Shareholder of SaskEnergy Chilean Holdings II Ltd.

We have audited the statement of financial position of SaskEnergy Chilean Holdings II Ltd. as at December 31, 2007. This financial statement is the responsibility of the Corporation's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, this financial statement presents fairly, in all material respects, the financial position of the Corporation as at December 31, 2007 in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP.

Chartered Accountants

Regina, Saskatchewan
February 15, 2008

SASKENERGY CHILEAN HOLDINGS II LTD.

Statement of Financial Position

As at December 31
(thousands of dollars)

	2007	2006
Assets		
Long-term investment (Note 3)	$ 14	$ 14
Shareholder's Equity		
Share capital (Note 4)	$ 14	$ 14

(See accompanying notes)

On behalf of the Board:

Director

Director

1. Status of the Corporation

SaskEnergy Chilean Holdings II Ltd. was created on June 4, 1997 under *The Canada Business Corporations Act*. The Corporation is a wholly owned subsidiary of SaskEnergy International Incorporated. SaskEnergy International Incorporated is a wholly owned subsidiary of SaskEnergy Incorporated, a Saskatchewan provincial Crown corporation, and therefore is not subject to Federal or Provincial income taxes in Canada.

The affairs of the Corporation are managed by the Board of Directors and the management of SaskEnergy International Incorporated.

During the year the Corporation had no revenue or expenses or cash flows, and accordingly a statement of earnings and statement of cash flows are not included.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management periodically evaluates the estimates and assumptions used based on past experience and other factors considered reasonable under the circumstances. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods. Actual results could differ from these estimates. The following accounting policy is considered to be significant:

Long-term investment

The Corporation accounts for its investment in SaskEnergy Chilean Holdings Limitada using the cost method (0.1 per cent ownership interest as at December 31, 2007 and December 31, 2006).

3. Long-Term Investment

The Corporation holds a 0.1 per cent interest in SaskEnergy Chilean Holdings Limitada with SaskEnergy Chilean Holdings I Ltd. (an affiliate) holding the remaining 99.9 per cent interest. The cost of the Corporation's investment in SaskEnergy Chilean Holdings Limitada is $13.6 thousand as at December 31, 2007 (2006 - $13.6 thousand).

4. Share Capital

Authorized share capital consists of an unlimited number of Class A common shares without nominal or par value. There are 1,365.2 shares (2006 - 1,365.2) issued and outstanding.

SASKENERGY CHILEAN HOLDINGS LIMITADA

FINANCIAL STATEMENTS

December 31, 2007

Deloitte

Auditors' Report

To the Partners of SaskEnergy Chilean Holdings Limitada

We have audited the statement of financial position of SaskEnergy Chilean Holdings Limitada as at December 31, 2007 and the statements of income and retained earnings, comprehensive loss, accumulated other comprehensive loss and cash flows for the year then ended. These financial statements are the responsibility of the limited partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the limited partnership as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP.

Chartered Accountants

Regina, Saskatchewan
February 15, 2008

SASKENERGY CHILEAN HOLDINGS LIMITADA
Statement of Financial Position

As at December 31
(thousands of dollars)

	2007	2006 (Restated)
Assets		
Long-term investment (Note 4)	$ 14,451	$ 14,551
Partnership Equity		
Retained earnings	$ 2,773	$ 1,506
Accumulated other comprehensive loss (Note 5)	(1,964)	(597)
	809	909
Partnership contributions (Note 6)	13,642	13,642
	$ 14,451	$ 14,551

Commitment (Note 7)

(See accompanying notes)

On behalf of the Board:

Director

Director

SASKENERGY CHILEAN HOLDINGS LIMITADA

Statement of Income and Retained Earnings

Years ended December 31

(thousands of dollars)

	2007	2006
Share of equity investment net income (Note 4)	**$ 1,267**	$ 642
Net income	**1,267**	642
Retained earnings, beginning of year	**1,506**	864
Retained earnings, end of year	**$ 2,773**	$ 1,506

(See accompanying notes)

SASKENERGY CHILEAN HOLDINGS LIMITADA
Statement of Comprehensive Loss

Years ended December 31
(thousands of dollars)

	2007	2006
Net income	$ 1,267	$ 642
Other comprehensive loss		
Unrealized losses on translating financial statements of self-sustaining foreign operations	(1,367)	(479)
Comprehensive (loss) income	$ (100)	$ 163

SASKENERGY CHILEAN HOLDINGS LIMITADA
Statement of Accumulated Other Comprehensive Loss

Years ended December 31
(thousands of dollars)

	2007	2006
Accumulated other comprehensive loss, beginning of year	$ (597)	$ (118)
Other comprehensive loss	(1,367)	(479)
Accumulated other comprehensive loss, end of year	$ (1,964)	$ (597)

(See accompanying notes)

SASKENERGY CHILEAN HOLDINGS LIMITADA
Statement of Cash Flows

Years ended December 31
(thousands of dollars)

	2007	2006
Operating Activities		
Net income	$ 1,267	$ 642
Deduct non-cash item		
Share of equity investment net income	(1,267)	(642)
Cash provided by operating activities	-	-
Increase in cash during the year	-	-
Cash position, beginning of year	-	-
Cash position, end of year	$ -	$ -

(See accompanying notes)

1. Status of the Limited Partnership

SaskEnergy Chilean Holdings Limitada was established on December 16, 1998 as a Chilean limited partnership owned by two Canadian corporations – SaskEnergy Chilean Holdings I Ltd. and SaskEnergy Chilean Holdings II Ltd. The Canadian corporations are wholly owned subsidiaries of SaskEnergy International Incorporated. SaskEnergy International Incorporated is a wholly owned subsidiary of SaskEnergy Incorporated, a Saskatchewan provincial Crown corporation.

SaskEnergy Chilean Holdings I Ltd. and SaskEnergy Chilean Holdings II Ltd. have 99.9 per cent and 0.1 per cent respective ownership interests in the limited partnership. The net income of the limited partnership are attributed to the partners.

The affairs of the limited partnership are managed by the Board of Directors and the management of SaskEnergy International Incorporated.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management periodically evaluates the estimates and assumptions used based on past experience and other factors considered reasonable under the circumstances. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods. The following accounting policies are considered to be significant:

a. Long-term investment

The limited partnership accounts for its investment in Gas Sur S.A. using the equity method.

b. Financial instruments

SaskEnergy Chilean Holdings Limitada classifies its financial instruments into one of the following categories: 1) held-for-trading, 2) held-to-maturity, 3) loans and receivables, 4) available-for-sale, and 5) other liabilities.

All financial instruments are measured at fair value upon initial recognition. The fair value of a financial instrument is the amount at which the financial instrument could be exchanged in an arm's-length-transaction between knowledgeable and willing parties under no compulsion to act.

Financial assets and liabilities classified as held-for-trading are subsequently measured at fair value with changes in fair value recognized in net income. Financial assets classified as available-for-sale are subsequently measured at fair value with changes in fair value recognized in other comprehensive income. Financial assets classified as held-to-maturity and loans and receivables as well as financial liabilities classified as other liabilities are subsequently amortized using the effective interest method. All derivatives are recognized as an asset or liability on the trade date.

2. Summary of Significant Accounting Policies (continued)

Transaction costs related to held-for-trading financial assets and liabilities are expensed as incurred. For all other financial instruments, transaction costs are included in the initial carrying amount.

SaskEnergy Chilean Holdings Limitada selected January 1, 2003 as the transition date for the identification and recognition of embedded derivatives. Accordingly, only contracts or financial instruments entered into or modified after the transition date were reviewed for embedded derivatives. As at December 31, 2006 and December 31, 2007, SaskEnergy Chilean Holdings Limitada does not have any outstanding contracts or financial instruments with embedded derivatives.

SaskEnergy Chilean Holdings Limitada's foreign investment is self-sustaining, and the financial statements are translated from the functional currency into Canadian dollars using the current rate method. Translation adjustments resulting from changes in the exchange rate between the functional currency and the Canadian dollar are reflected in accumulated other comprehensive loss in the Partnership Equity.

c. Future accounting policy changes

The Canadian Institute of Chartered Accountants (CICA) has issued new accounting recommendations for disclosure and presentation of financial instruments, Section 3862 – Financial Instruments - Disclosures and Section 3863 – Financial Instruments - Presentation, which are effective for fiscal years beginning on or after October 1, 2007. These new standards require disclosures of both qualitative and quantitative information that enables financial statement users to evaluate the nature and extent of risks arising from financial instruments to which SaskEnergy Chilean Holdings Limitada is exposed.

Section 1535 – Capital Disclosures has been issued by the CICA and applies to fiscal years beginning on or after October 1, 2007. This section requires disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate SaskEnergy Chilean Holdings Limitada's objectives, policies and processes for managing capital.

3. Changes in Accounting Policies

Effective January 1, 2007, SaskEnergy Chilean Holdings Limitada adopted the new CICA Handbook Section 1506 – Accounting Changes in accordance with the transitional provisions of the section. Section 1506 allows for voluntary changes in accounting policy only if they result in the financial statements providing reliable and more relevant information and that new disclosures are required in respect of changes in accounting policies, changes in accounting estimates and correction of errors. The adoption of Section 1506 has had no material impact on these audited financial statements.

Effective January 1, 2007 SaskEnergy Chilean Holdings Limitada adopted the new CICA Handbook Section 1530 - Comprehensive Income, Section 3251 – Equity, Section 3855 – Financial Instruments - Recognition and Measurement, Section 3861 – Financial Instruments - Presentation and Disclosure, and Section 3865 – Hedges.

3. Changes in Accounting Policies (continued)

Section 1530 requires a new statement of Comprehensive Income and establishes Accumulated Other Comprehensive Income (AOCI) as a separate component of the Partnership equity. The statement of comprehensive income reflects the changes in AOCI in the period. Changes in AOCI include the unrealized gains and losses on translating financial statements of self-sustaining foreign operations.

The effect of retrospective adoption was reclassification of an accumulated loss of $597 thousand as at December 31, 2006 from foreign currency translation adjustment to accumulated other comprehensive loss.

4. Long-Term Investment

As at December 31, the 30.0 per cent equity investment (2006 - 30.0 per cent) in Gas Sur S.A. was as follows:

	2007	2006
	(thousands)	
Equity investment	$ 13,642	$ 13,642
Accumulated equity earnings	2,773	1,506
Currency translation adjustment	(1,964)	(597)
	$ 14,451	$ 14,551

SaskEnergy Chilean Holdings Limitada's share of the foreign currency translation adjustment for 2007 resulted in a $1,367 thousand reduction in the balance of the investment in Gas Sur S.A. (2006 - $479 thousand decrease). SaskEnergy Chilean Holdings Limitada's 30.0 per cent share of Gas Sur S.A.'s 2007 net income was $1,267 thousand (2006 - $642 thousand).

The cost of the investment exceeded the limited partnership's underlying share of the net book value of Gas Sur S.A. by approximately $5,100 thousand (2006 - $5,100 thousand).

5. Accumulated Other Comprehensive Loss

The balance in accumulated other comprehensive loss consists of the following:

	2007	2006
	(thousands)	
Unrealized losses on translating financial statements of self-sustaining foreign operations	$ (1,964)	$ (597)

6. Partnership Contribution

	2007			2006
	SaskEnergy Chilean Holdings I Ltd. 99.9 per cent	SaskEnergy Chilean Holdings II Ltd. 0.1 per cent	Total	
		(thousands)		
Partnership contributions	$ 13,629	$ 13	$ 13,642	$ 13,642
Accumulated equity earnings	2,770	3	2,773	1,506
Foreign currency translation adjustment	(1,962)	(2)	(1,964)	(597)
Partnership equity	$ 14,437	$ 14	$ 14,451	$ 14,551

7. Commitment

SaskEnergy Incorporated has granted a guarantee related to certain obligations established under the Gas Sur S.A. Shareholders' Agreement. The guarantee is expressly limited to $5,000 thousand United States dollars.

8. Comparative Figures

Certain of the prior year's figures have been reclassified to conform with the current year's presentation.

SASKENERGY MEXICAN HOLDINGS LTD.

FINANCIAL STATEMENTS

December 31, 2007

Deloitte

Auditors' Report

To the Shareholder of SaskEnergy Mexican Holdings Ltd.

We have audited the statement of financial position of SaskEnergy Mexican Holdings Ltd. as at December 31, 2007 and the statements of income and retained earnings, comprehensive loss, accumulated other comprehensive loss and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2007 and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP.

Chartered Accountants

Regina, Saskatchewan
February 15, 2008

SASKENERGY MEXICAN HOLDINGS LTD.

Statement of Financial Position

As at December 31
(thousands of dollars)

	2007	2006 (Restated)
Assets		
Long-term investment (Note 4)	$ 9,449	$ 10,313
Shareholder's Equity		
Accumulated other comprehensive loss (Note 5)	$ (3,115)	$ (1,469)
Retained earnings	1,823	1,041
	(1,292)	(428)
Share capital (Note 6)	10,741	10,741
	$ 9,449	$ 10,313

Commitments (Note 7)

(See accompanying notes)

On behalf of the Board:

Director

Director

SASKENERGY MEXICAN HOLDINGS LTD.
Statement of Income and Retained Earnings

Years ended December 31
(thousands of dollars)

	2007	2006
Share of equity investment net income (Note 4)	$ 782	$ 532
Net income	782	532
Retained earnings, beginning of year	1,041	509
Retained earnings, end of year	$ 1,823	$ 1,041

(See accompanying notes)

SASKENERGY MEXICAN HOLDINGS LTD.

Statement of Comprehensive Loss

Years ended December 31
(thousands of dollars)

	2007	2006
Net income	$ 782	$ 532
Other comprehensive loss		
Unrealized gains and losses on translating financial statements of self-sustaining foreign operations	(1,646)	40
Comprehensive (loss) income	$ (864)	$ 572

SASKENERGY MEXICAN HOLDINGS LTD.

Statement of Accumulated Other Comprehensive Loss

Years ended December 31
(thousands of dollars)

	2007	2006
Accumulated other comprehensive loss, beginning of year	$ (1,469)	$ (1,509)
Other comprehensive (loss) income	(1,646)	40
Accumulated other comprehensive loss, end of year	$ (3,115)	$ (1,469)

(See accompanying notes)

SASKENERGY MEXICAN HOLDINGS LTD.

Statement of Cash Flows

Years ended December 31
(thousands of dollars)

	2007	2006
Operating Activities		
Net income	$ 782	$ 532
Add item not requiring an outlay of cash		
Share of equity investment net income	(782)	(532)
Cash provided by operating activities	-	-
Increase in cash during the year	-	-
Cash position, beginning of year	-	-
Cash position, end of year	$ -	$ -

(See accompanying notes)

SaskEnergy Mexican Holdings Ltd.
Notes to the Financial Statements
December 31, 2007

1. Status of the Corporation

The Corporation was incorporated on November 15, 2001 under *The Canada Business Corporations Act* and is a wholly owned subsidiary of SaskEnergy International Incorporated. SaskEnergy International Incorporated is a wholly owned subsidiary of SaskEnergy Incorporated, a Saskatchewan provincial Crown corporation, and therefore is not subject to Federal or Provincial income taxes in Canada.

The affairs of the Corporation are managed by the Board of Directors and the management of SaskEnergy International Incorporated's parent, SaskEnergy Incorporated.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management periodically evaluates the estimates and assumptions used based on past experience and other factors considered reasonable under the circumstances. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods. The following accounting policies are considered to be significant:

a. Long-term investment

The Corporation accounts for its investment in Igasamex USA Ltd. using the equity method.

b. Financial instruments

The Corporation classifies its financial instruments into one of the following categories: 1) held-for-trading, 2) held-to-maturity, 3) loans and receivables, 4) available-for-sale, and 5) other liabilities.

All financial instruments are measured at fair value upon initial recognition. The fair value of a financial instrument is the amount at which the financial instrument could be exchanged in an arm's-length-transaction between knowledgeable and willing parties under no compulsion to act.

Financial assets and liabilities classified as held-for-trading are subsequently measured at fair value with changes in fair value recognized in net income. Financial assets classified as available-for-sale are subsequently measured at fair value with changes in fair value recognized in other comprehensive income. Financial assets classified as held-to-maturity and loans and receivables as well as financial liabilities classified as other liabilities are subsequently amortized using the effective interest method. All derivatives are recognized as an asset or liability on the trade date.

Transaction costs related to held-for-trading financial assets and liabilities are expensed as incurred. For all other financial instruments, transaction costs are included in the initial carrying amount.

2. Summary of Significant Accounting Policies (continued)

The Corporation selected January 1, 2003 as the transition date for the identification and recognition of embedded derivatives. Accordingly, only contracts or financial instruments entered into or modified after the transition date were reviewed for embedded derivatives. As at December 31, 2006 and December 31, 2007, the Corporation does not have any outstanding contracts or financial instruments with embedded derivatives.

The Corporation's foreign investment is self-sustaining, and the financial statements are translated from the functional currency into Canadian dollars using the current rate method. Translation adjustments resulting from changes in the exchange rate between the functional currency and the Canadian dollar are reflected in accumulated other comprehensive loss in the Shareholder's Equity.

c. Future accounting policy changes

The Canadian Institute of Chartered Accountants (CICA) has issued new accounting recommendations for disclosure and presentation of financial instruments, Section 3862 – Financial Instruments - Disclosures and Section 3863 – Financial Instruments - Presentation, which are effective for fiscal years beginning on or after October 1, 2007. These new standards require disclosures of both qualitative and quantitative information that enables financial statement users to evaluate the nature and extent of risks arising from financial instruments to which the Corporation is exposed.

Section 1535 – Capital Disclosures has been issued by the CICA and applies to fiscal years beginning on or after October 1, 2007. This section requires disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the Corporation's objectives, policies and processes for managing capital.

3. Changes in Accounting Policies

Effective January 1, 2007, the Corporation adopted the new CICA Handbook Section 1506 – Accounting Changes in accordance with the transitional provisions of the section. Section 1506 allows for voluntary changes in accounting policy only if they result in the financial statements providing reliable and more relevant information and that new disclosures are required in respect of changes in accounting policies, changes in accounting estimates and correction of errors. The adoption of Section 1506 has had no material impact on these audited financial statements.

Effective January 1, 2007, the Corporation adopted the new CICA Handbook Section 1530 – Comprehensive Income, Section 3251 – Equity, Section 3855 – Financial Instruments - Recognition and Measurement, Section 3861 – Financial Instruments - Presentation and Disclosure, and Section 3865 – Hedges.

Section 1530 requires a new statement of Comprehensive Income and establishes Accumulated Other Comprehensive Income (AOCI) as a separate component of the Shareholder's equity. The statement of comprehensive income reflects the changes in AOCI in the period. Changes in AOCI include the unrealized gains and losses on translating financial statements of self-sustaining foreign operations.

3. Changes in Accounting Policies (continued)

The effect of retrospective adoption was reclassification of an accumulated loss of $1,469 thousand as at December 31, 2006 from foreign currency translation adjustment to accumulated other comprehensive loss.

4. Long-Term Investment

As at December 31, the 40.1 per cent equity investment in Igasamex USA Ltd. was as follows:

	2007 Amount (thousands)	2006 Amount (thousands)
Equity investment	**$ 10,741**	$ 10,741
Accumulated equity earnings	**1,823**	1,041
Currency translation adjustment	**(3,115)**	(1,469)
	$ 9,449	$ 10,313

The Corporation's share of the foreign currency translation adjustment for 2007 resulted in a $1,646 thousand decrease on in the balance of the investment in Igasamex USA Ltd. (2006 - $40 thousand increase). The Corporation's 40.1 per cent share of Igasamex USA Ltd.'s 2007 net income was $782 thousand (2006 - $532 thousand).

The cost of the investment exceeded the Corporation's underlying share of the net book value of Igasamex USA Ltd. by approximately $4,800 thousand (2006 - $4,800 thousand).

5. Accumulated Other Comprehensive Loss

The balance in accumulated other comprehensive loss consists of the following:

	2007 (thousands)	2006 (thousands)
Unrealized losses on translating financial statements of self-sustaining foreign operations	**$ (3,115)**	$ (1,469)

6. Share Capital

Authorized share capital consists of an unlimited number of Class A common shares without nominal or par value. There are 1,074,100.9 shares (2006 - 1,074,100.9) issued and outstanding.

7. Commitments

SaskEnergy Mexican Holdings Ltd., has posted a $4,008 thousand (United States dollar denominated) letter of credit in favour of Scotiabank S.A., a Mexican bank. The letter of credit is used as collateral for the Corporation's share of a line of credit issued to Igasamex USA Ltd. Scotiabank Inverlat S.A. may draw upon this letter of credit if Igasamex USA Ltd. defaults under the terms of its loan agreement with Scotiabank Inverlat S.A.

8. Comparative Figures

Certain of the prior year's figures have been reclassified to conform with the current year's presentation.

SASKENERGY NOVA SCOTIA HOLDINGS LTD.

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2007

Deloitte

Auditors' Report

To the Shareholder of SaskEnergy Nova Scotia Holdings Ltd.

We have audited the consolidated statement of financial position of SaskEnergy Nova Scotia Holdings Ltd. as at December 31, 2007 and the consolidated statements of income and comprehensive income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP.

Chartered Accountants

Regina, Saskatchewan
February 15, 2008

SASKENERGY NOVA SCOTIA HOLDINGS LTD.
Consolidated Statement of Financial Position

As at December 31
(thousands of dollars)

	2007	2006
Assets		
Current assets		
Cash	$ 1,758	$ 824
Accounts receivable	2,345	1,377
Inventories of supplies	134	89
Intercompany accounts receivable	6	2
Prepaid expenses	76	69
Gas cost variance account	54	8
	4,373	2,369
Property, plant and equipment (Note 5)	37,247	26,115
Revenue deficiency account (Note 6)	8,601	5,168
Deferred charges (Note 7)	140	189
	$ 50,361	$ 33,841
Liabilities and Shareholder's Equity		
Current liabilities		
Accounts payable	$ 6,479	$ 2,745
Intercompany accounts payable	158	120
	6,637	2,865
Long-term debt (Note 8)	24,189	17,855
	30,826	20,720
Shareholder's equity		
Share capital (Note 9)	13,870	9,861
Retained earnings	5,665	3,260
	19,535	13,121
	$ 50,361	$ 33,841

Commitments (Note 10)

On behalf of the Board:

Director

Director

SASKENERGY NOVA SCOTIA HOLDINGS LTD.

Consolidated Statement of Income and Comprehensive Income and Retained Earnings

Years ended December 31
(thousands of dollars)

	2007	2006
Revenue		
Commodity sales	$ 4,248	$ 2,125
Delivery	1,582	713
Allowance for funds used during construction (Note 5)	521	484
Revenue deficiency accrual (Note 6)	3,433	2,459
Other	29	19
	9,813	5,800
Expenses		
Cost of gas sold	4,248	2,125
Operating and maintenance	1,286	932
Interest (Note 8)	1,026	594
Amortization of property, plant and equipment	686	453
Amortization of deferred charges (Note 7)	55	51
Corporation capital tax	107	73
	7,408	4,228
Net income and comprehensive income	2,405	1,572
Retained earnings, beginning of year	3,260	1,688
Retained earnings, end of year	$ 5,665	$ 3,260

(See accompanying notes)

SASKENERGY NOVA SCOTIA HOLDINGS LTD.
Consolidated Statement of Cash Flows

Years ended December 31
(thousands of dollars)

	2007	2006
Operating Activities		
Net income	$ 2,405	$ 1,572
Add (deduct) items not requiring an outlay of cash		
Allowance for funds used during construction	(521)	(484)
Amortization of property, plant and equipment	686	453
Amortization of deferred charges	55	51
Revenue deficiency accrual	(3,433)	(2,459)
Other non-cash items - including change in fair value of non-interest bearing loan	(907)	-
	(1,715)	(867)
Net change in non-cash working capital (Note 13)	2,702	552
Cash provided by (used) in operating activities	987	(315)
Investing Activities		
Additions to property, plant and equipment	(11,009)	(9,235)
Acquisition (Note 5)	(288)	-
Increase in deferred charges (Note 7)	(6)	(89)
Cash used in investing activities	(11,303)	(9,324)
Financing Activities		
Proceeds from long-term debt	7,241	6,108
Proceeds from share capital issue	4,009	3,709
Cash provided by financing activities	11,250	9,817
Increase in cash during the year	934	178
Cash position, beginning of year	824	646
Cash position, end of year	$ 1,758	$ 824

(See accompanying notes)

1. Status of the Corporation

SaskEnergy Nova Scotia Holdings Ltd. was created on September 13, 2002 under *The Canada Business Corporations Act*. The Corporation is a wholly owned subsidiary of SaskEnergy Incorporated (SaskEnergy), a Saskatchewan provincial Crown corporation, and therefore is not subject to Federal or Provincial income taxes in Canada.

The affairs of the Corporation are managed by its Board of Directors and the management of its parent, SaskEnergy.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Management periodically evaluates the estimates and assumptions used based on past experience and other factors considered reasonable under the circumstances. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods. The following accounting policies are considered to be significant:

a. Principles of consolidation

The consolidated financial statements include the accounts of the Corporation and its 50.1 per cent proportionate share of the accounts of Heritage Gas Limited (Heritage Gas), accounted for as a joint venture.

b. Rate regulation

The business activities of Heritage Gas are regulated by the Nova Scotia Utility and Review Board (NSUARB). Heritage Gas' accounting policies conform to Canadian generally accepted accounting principles for rate regulated utilities and reflect the policies established by the NSUARB. The impact of rate regulation on the application of Canadian generally accepted accounting principles as described in notes 5 and 6 are as follows:

i. Return on rate base

Heritage Gas is allowed to earn a return on its rate base which is intended to provide its shareholders with a fair return on investment and to cover the cost of interest expense on debt. The rate base is the aggregate of Heritage Gas' investment in property, plant and equipment, revenue deficiency account and deferred charges, less accumulated amortization, plus working capital excluding the interest free loan from the Province of Nova Scotia (see Note 8b). The return is based on Heritage Gas' regulated capital structure as approved by the NSUARB.

2. Summary of Significant Accounting Policies (continued)

ii. Regulatory process – delivery tariffs

Heritage Gas' delivery tariffs are determined through a General Tariff Application (GTA) process which establishes the revenue requirement and the rates to be charged to various customer classes as approved by the NSUARB. The GTA process completed in 2006, established the revenue requirement and delivery rates to be charged for the period January 1, 2007 - December 31, 2011.

iii. Revenue deficiency account

Heritage Gas has approval from the NSUARB to use a Revenue deficiency account (RDA). The RDA is based on the difference between the actual revenue billed and the weather normalized revenue required to earn the rates of return approved by the NSUARB. During Heritage Gas' customer development stage, it is expected that the actual revenue billed will be less than the revenue required to earn the approved rates of return and therefore an RDA asset will accumulate.

As the natural gas distribution network matures, the actual revenue billed is expected to exceed the revenue required to earn the approved rates of return and the RDA will be drawn down. Heritage Gas projects to fully recover its RDA by 2021.

iv. Allowance for funds used during construction

In accordance with accounting policies approved by the NSUARB, Heritage Gas capitalizes an imputed carrying cost on assets under construction at a rate approved by the NSUARB. This amount capitalized is disclosed on the income statement as Allowance for funds used during construction (AFUDC). AFUDC is the amount that a rate-regulated enterprise is allowed to earn to recover its cost of financing assets under construction. It is calculated at the Heritage Gas' mid-month cost of construction work-in-progress multiplied by the Corporation's regulated weighted average cost of capital percentage. AFUDC is included in the cost of the related assets and recovered in future periods through amortization charges. Non-rate regulated companies generally capitalize interest on debt during construction of assets based on their actual cost of debt financing.

2. Summary of Significant Accounting Policies (continued)

v. Capitalized expenses

The NSUARB has approved the continued capitalization of operating and maintenance expenses to 2011. If Heritage Gas was not subject to rate regulation, certain of these amounts would not be capitalized. The percentage capitalized is as follows:

	2007	2006
	(per cent)	
Executive, operations, human resources, finance and administration, and overhead	-	25
Marketing, engineering, construction, regulatory and public affairs	**100**	100

vi. Gas cost variance account

The gas cost variance account (GCVA) is the difference between the cost of natural gas sold and the current rate charged to customers. The balance in the GCVA is either recovered from or refunded to customers through adjustments to future rates.

vii. Property, plant and equipment

The AFUDC and capitalized expenses are amortized at rates authorized by the NSUARB.

Amortization of property, plant and equipment is calculated on a straight-line basis by applying a fixed rate to the cost at the previous year end balance as approved by the NSUARB. Approved amortization rates are as follows: (in per cent)

Distribution		Computer systems	20.0 to 33.0
- Franchise acquisition	4.0	Vehicles and equipment	5.0 to 16.4
- Mains and services	2.1 to 2.7	Tools and furniture	5.0
- Regulating and meter stations	2.6 to 4.2	Leaseholds	Lease term
- Meters	3.5		

viii. Cost of gas sold

Cost of gas sold is the cost of gas purchased for resale to customers. Charges for gas delivered are based on the forecast cost of natural gas. Differences between the forecast cost and the actual cost of natural gas are deferred for refund to, or collection from, customers in subsequent periods.

2. Summary of Significant Accounting Policies (continued)

ix. Income and other taxes

Heritage Gas follows the taxes payable method of accounting for income taxes. Provision is only made for those income taxes currently payable and no future tax is recorded on timing differences between accounting and taxable income. Non-rate regulated companies would account for income taxes using the liability method and record a future income tax asset or liability less a valuation provision if realization of the assets was not considered more likely than not.

x. Deferred charges

Costs incurred by Heritage Gas related to its regulatory proceedings are deferred and amortized on a straight- line basis over a period as approved by the NSUARB.

c. Inventories of supplies

Inventories of supplies consist primarily of pipe and general stock for construction and maintenance and are recorded at the lower of average cost or replacement cost.

d. Property, plant and equipment

Property, plant and equipment is recorded at cost and includes all direct costs plus capitalized expenses and an AFUDC.

Certain additions to property, plant and equipment are made with the assistance of contributions in aid of construction. Contributions in aid of construction are offset against the corresponding asset balances and amortized at the same rate as the corresponding asset.

e. Revenue recognition

Revenue includes revenue from the distribution of natural gas and recovery of the cost of natural gas paid to suppliers, and the related natural gas supply costs. Revenue is recognized when natural gas is delivered or services are performed. Distribution revenue is recorded on the basis of regular meter readings and estimates of customer usage from the date of the last meter reading to the end of the reporting period. Operations are subject to regulation and, accordingly, revenue is recognized in a manner that is consistent with the underlying rate-setting mechanism as mandated by the NSUARB. Delivery rates are designed to recover the total cost of delivery and an approved rate of return on equity.

2. Summary of Significant Accounting Policies (continued)

f. Financial instruments

The Corporation classifies its financial instruments into one of the following categories: 1) held-for-trading, 2) held-to-maturity, 3) loans and receivables, 4) available-for-sale, and 5) other liabilities.

All financial instruments are measured at fair value upon initial recognition. The fair value of a financial instrument is the amount at which the financial instrument could be exchanged in an arm's-length-transaction between knowledgeable and willing parties under no compulsion to act.

Financial assets and liabilities classified as held-for-trading are subsequently measured at fair value with changes in fair value recognized in net income. Financial assets classified as held-to-maturity and loans and receivables as well as financial liabilities classified as other liabilities are subsequently amortized using the effective interest method. All derivatives are recognized as an asset or liability on the trade date.

Cash is classified as held-for-trading. Carrying value approximates fair value due to the short-term nature of these instruments. Accounts receivable and intercompany accounts receivable are classified as loans and receivables. Carrying value approximates fair value due to the short-term nature of these instruments.

Accounts payable, and intercompany accounts payable are classified as other liabilities. Carrying value approximates fair value due to the short-term nature of these instruments. Long-term debt is classified as other liabilities and, with the exception of the non-interest bearing loan, is recorded at amortized cost. The non-interest bearing loan is from the Province of Nova Scotia and has been fair valued using the effective interest method and accounted for as a government grant, which has been applied as a reduction to property, plant and equipment. The change in the fair value of the non-interest bearing loan is recognized in interest expense.

The Corporation selected January 1, 2003 as the transition date for the identification and recognition of embedded derivatives. Accordingly, only contracts or financial instruments entered into or modified after the transition date were reviewed for embedded derivatives. As at December 31, 2006 and December 31, 2007, the Corporation does not have any outstanding contracts or financial instruments with embedded derivatives.

2. Summary of Significant Accounting Policies (continued)

g. Future accounting policy changes

The Canadian Institute of Chartered Accountants (CICA) has issued new accounting recommendations for disclosure and presentation of financial instruments, Section 3862 – Financial Instruments - Disclosures and Section 3863 – Financial Instruments - Presentation, which are effective for fiscal years beginning on or after October 1, 2007. These new standards require disclosures of both qualitative and quantitative information that enables financial statement users to evaluate the nature and extent of risks arising from financial instruments to which the Corporation is exposed.

Section 1535 – Capital Disclosures has been issued by the CICA and applies to fiscal years beginning on or after October 1, 2007. This section requires disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the Corporation's objectives, policies and processes for managing capital.

Sections 1100 – Generally Accepted Accounting Principles and Section 3465 – Income Taxes has been issued by the CICA and applies to fiscal years beginning on or after January 1, 2009. These sections have been amended and will impact rate-regulated enterprises. A temporary exemption pertaining to the application of Section 1100 – Generally Accepted Accounting Principles, specifically to the recognition and measurement of assets and liabilities arising from rate regulation, has been removed. Also, rate-regulated enterprises will be required to recognize future income tax liabilities and assets, as well as a regulatory asset or liability for the amount of future income taxes expected to be included in future delivery rates and recovered from or returned to future customers, and to present these amounts on a gross basis in the financial statements.

3. Changes in Accounting Policies

Effective January 1, 2007, the Corporation adopted the new CICA Handbook Section 1506 – Accounting Changes in accordance with the transitional provisions of the section. Section 1506 allows for voluntary changes in accounting policy only if they result in the financial statements providing reliable and more relevant information and that new disclosures are required in respect of changes in accounting policies, changes in accounting estimates and correction of errors. The adoption of Section 1506 has had no material impact on these audited consolidated financial statements.

Effective January 1, 2007, the Corporation adopted the new CICA Handbook Section 1530 – Comprehensive Income, Section 3251 – Equity, Section 3855 – Financial Instruments - Recognition and Measurement, Section 3861 – Financial Instruments - Presentation and Disclosure, and Section 3865 – Hedges.

3. Changes in Accounting Policies (continued)

Upon the adoption of the new standards, the impact of applying this change in accounting policy on the unrealized net income for the year ended December 31, 2007 was as follows to recognize fair value adjustments for the non-interest bearing loan (Note 5 and Note 8b):

	December 31 2007 (thousands)
Amortization expense	$ (31)
Interest expense	110
Decrease in net income	$ 79

4. Revolving Demand Facility

The Corporation, through its interest in Heritage Gas, has a $501 thousand (2006 - $501 thousand) revolving demand facility with a Canadian chartered bank, bearing interest at bank prime plus one per cent, which is secured by a General Security Agreement over all personal property of Heritage Gas.

5. Property, Plant and Equipment

	2007			2006		
	(thousands)					
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Franchise acquisition costs	$ 1,668	$ 267	$ 1,401	$ 1,668	$ 201	$ 1,467
Mains and services	35,105	779	34,326	23,558	346	23,212
Regulating and metering stations	370	114	256	369	53	316
Meters	753	21	732	555	7	548
Computer systems	230	160	70	196	105	91
Vehicles and equipment	349	63	286	321	34	287
Tools, furniture and leaseholds	239	63	176	231	37	194
	$ 38,714	$ 1,467	$ 37,247	$ 26,898	$ 783	$ 26,115

Franchise acquisition costs represent payments made for expenditures incurred to acquire the franchise.

In 2007, the Corporation recorded $521 thousand (2006 - $484 thousand) in AFUDC. The cumulative AFUDC recorded as at December 31, 2007 was $1,587 thousand (2006 - $1,066 thousand).

5. Property, Plant and Equipment (continued)

Included in mains and services is work in progress in the amount of $3,419 thousand for the year ended December 31, 2007 (2006 - $3,232 thousand). Work in progress is not depreciated until the year after the plant is brought into active service, as approved by the NSUARB.

The capitalization of operating and maintenance expenses effectively decreased expenses and increased property, plant and equipment in 2007 by $1,490 thousand (2006 - $1,298 thousand). The cumulative operating expenses capitalized as at December 31, 2007 were $7,142 thousand (2006 - $5,652 thousand).

The Corporation has recorded an entry for $1,017 thousand as government assistance which has been applied as a reduction of property, plant and equipment (mains and services) and is being amortized on a straight-line basis using a 3.0 per cent annual rate, being the average life of the distribution assets to which the government assistance related.

On October 23, 2007, Heritage Gas acquired 100 per cent of the issued and outstanding shares of Cajun Holding & Development Company Limited for $576 thousand. The purchase price was allocated to property, plant and equipment.

In 2004, Heritage Gas constructed certain assets related to a large customer within its franchise area. In 2006, Heritage Gas activated the assets to supply other customers, and pursuant to a decision issued by the NSUARB on December 21, 2006, included a portion of the asset cost ($250 thousand) in rate base and the relevant operating costs in rates. Discussions continue with the large customer to fully utilize the assets, and the Corporation continues to explore alternative uses of these assets and is confident that these assets will be fully utilized in the foreseeable future. Based on projected cash flows, management does not consider the current value of the assets to be impaired. However, significant changes in results from those assumed in the current business plan could impact the estimated cash flows and should the economic values of these assets be determined to be impaired, a reduction in the net book value of these assets could be material to net income. The assets which have not been put into service are not being amortized.

6. Revenue Deficiency Account

	2007	2006
	(thousands)	
Revenue deficiency account, beginning of year	$ 5,168	$ 2,709
Accrued during year	3,433	2,459
Revenue deficiency account, end of year	$ 8,601	$ 5,168

The impact of this accrual was to increase revenue and increase the revenue deficiency account.

7. Deferred Charges

Deferred charges include third party costs related to regulatory proceedings. These costs are being amortized on a straight-line basis over a five-year period as approved by the NSUARB.

	2007	2006
	(thousands)	
Deferred charges, beginning of year	$ 189	$ 151
Cost incurred during year	6	89
Amortization	(55)	(51)
Deferred charges, end of year	$ 140	$ 189

8. Long-Term Debt

	2007		2006	
	Principal Outstanding (thousands)	Fixed Interest Rate (per cent)	Principal Outstanding (thousands)	Fixed Interest Rate (per cent)
Note payable to parent	$ 22,290	5.3	$ 15,049	5.3
Province of Nova Scotia	1,899	-	2,806	-
	$ 24,189		$ 17,855	

a. Note payable to parent

The Corporation has received $7,241 thousand in loans from SaskEnergy to fulfill ownership obligations to finance its proportionate share of Heritage Gas funding requirements (2006 - $6,108 thousand). The effective interest rate for notes payable to parent is 5.25 per cent.

b. Province of Nova Scotia

During 2006, $3,808 thousand was received from the Province of Nova Scotia. The Province of Nova Scotia loan is non-interest bearing. If certain prescribed revenue targets are achieved, interest will accumulate on a prospective basis at a rate of 6.0 per cent. The Province of Nova Scotia loan is guaranteed by the Corporation based on its proportionate ownership interest in Heritage Gas. On or before July 1, 2011, Heritage Gas must elect to either repay the loan in one lump sum payment on July 31, 2014, or in five equal annual instalments, beginning on July 31, 2012. Heritage Gas may also elect to fully repay the loan at any time without penalty.

As prescribed capital investment targets were achieved by December 31, 2006, $1,002 thousand of the loan was forgiven in 2007. The Corporation has recorded the $1,002 thousand as a reduction of property, plant and equipment.

During 2007, a fair value adjustment of $1,017 thousand has been recorded as a reduction to this long-term debt and is being amortized over the expected term of the loan. The fair value adjustment, net of accumulated interest recorded at December 31, 2007 was $907 thousand.

8. Long-Term Debt (continued)

c. Interest expense

Interest expense was as follows:

	2007 (thousands)	2006
Interest on long-term debt	**$ 1,067**	$ 610
Interest on short-term investment	**(41)**	(16)
	$ 1,026	$ 594

There was $937 thousand (2006 - $588 thousand) in cash interest payments during the year.

The Corporation has a Credit Facility Agreement with its parent, SaskEnergy whereby it may borrow $3,808 thousand on a revolving basis. The Corporation pays an interest rate determined by SaskEnergy which is equivalent to SaskEnergy's average rate on short-term notes borrowed from the Province of Saskatchewan. Under this agreement the Corporation may make repayments at any time without penalty and SaskEnergy may terminate the loans without notice.

9. Share Capital

Authorized share capital consists of an unlimited number of class A common voting shares without nominal or par value.

	2007		2006	
	Shares	Amount (thousands)	Shares	Amount (thousands)
Share capital, beginning of year	**9,860,838**	**$ 9,861**	6,151,583	$ 6,152
Issued during the year	**4,008,775**	**4,009**	3,709,255	3,709
Share capital, end of year	**13,869,613**	**$ 13,870**	9,860,838	$ 9,861

10. Commitments

Future minimum lease payments under operating leases for office space and office equipment are estimated as follows: (thousands)

2008	2009	2010	2011	2012
$ 112	$ 99	$ 10	$ -	$ -

11. Financial Instruments

The fair value of the Corporation's financial instruments are listed below:

	2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(thousands)			
Long-term debt	**$ 22,290**	**$ 23,266**	$ 15,049	$15,887
Province of Nova Scotia	**1,899**	**1,899**	$ 2,806	$ 2,806

The carrying values of other financial instruments (cash, accounts receivable, intercompany accounts receivable, accounts payable and intercompany accounts payable) approximate fair value due to their relatively short term nature.

12. Comprehensive Income

CICA Handbook Section 1530 – Comprehensive Income establishes standards for the reporting and disclosure of comprehensive income. The Corporation does not have any items that require separate recognition outside of net income, and, as a result, the adoption of this section did not have any impact on the Corporation's consolidated financial statements. Comprehensive income is equivalent to net income for the year ended December 31, 2007.

13. Net Change in Non-Cash Working Capital

The net change in non-cash working capital related to operations was as follows:

	2007 (thousands)	2006
Accounts receivable	$ (968)	$ (559)
Inventories of supplies	(45)	6
Intercompany accounts receivable	(4)	(2)
Prepaid expenses	(7)	(16)
Gas cost variance account	(46)	7
Accounts payable	3,734	1,114
Intercompany accounts payable	38	2
	$ 2,702	$ 552

14. Related Party Transactions

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.

Transactions with SaskEnergy, and amounts outstanding at year end, are as follows:

	2007 (thousands)	2006
Interest income from parent	$ 41	$ 15
Operating and maintenance expenses	69	78
Interest expense on note payable to parent	965	610
Accounts payable	10	33
Interest payable on note payable to parent	89	61

These items have been recorded at their exchange amounts. Amounts outstanding at year end have been shown as intercompany accounts receivable and intercompany accounts payable on the statement of financial position.

15. Joint Venture Interest

The following amounts have been included in these consolidated financial statements with respect to the Corporation's 50.1 per cent proportionate share of Heritage Gas Limited:

a. Consolidated statement of financial position

	2007	2006
	(thousands)	
Current assets	**$ 3,448**	$ 1,833
Property, plant and equipment	**37,247**	26,115
Revenue deficiency account	**8,601**	5,168
Deferred charges	**140**	189
Current liabilities	**(6,515)**	(2,776)
Net investment	**$ 42,921**	$ 30,529

b. Consolidated statement of income

	2007	2006
	(thousands)	
Revenue	**$ 9,813**	$ 5,800
Expenses	**(6,302)**	(3,610)
Net income	**$ 3,511**	$ 2,190

c. Consolidated statement of cash flows

	2007	2006
	(thousands)	
Cash provided by (used in) operating activities	**$ 598**	$ (619)
Cash used in investing activities	**(11,303)**	(9,324)
Decrease in cash	**$ (10,705)**	$ (9,943)

16. Income Taxes

Heritage Gas is subject to Federal and Provincial income taxes in Canada. As at December 31, 2007, Heritage Gas had approximately $16,372 thousand in losses available to reduce future income taxes. These losses can be claimed no later than:

2010	2014	2015	2026
$ 1,218	$ 4,173	$ 3,963	$ 7,018

As of December 31, 2007, the unrecognized future income tax assets of Heritage Gas were approximately $2,489 thousand (2006 - $1,817 thousand).

17. Subsequent Event

Additional common shares of $1,690 thousand were purchased and $2,068 thousand in loans were advanced to the Corporation by SaskEnergy on January 8, 2008.

1

Heritage Gas Limited

Consolidated Financial Statements
December 31, 2007

PRICEWATERHOUSECOOPERS

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Chartered Accountants
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January 28, 2008

Auditors' Report

To the Shareholders of
Heritage Gas Limited

We have audited the consolidated balance sheet of **Heritage Gas Limited** (the Company) as at December 31, 2007 and the consolidated statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

PricewaterhouseCoopers refers to the Canadian firm of PricewaterhouseCoopers LLP and the other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

Heritage Gas Limited

Consolidated Balance Sheet

As at December 31, 2007

	2007 $	2006 $
Assets (note 4)		
Current assets		
Cash	1,663,754	574,560
Accounts receivable	4,721,064	2,749,621
Inventory of supplies	267,909	176,508
Prepaid expenses	151,645	136,883
Gas cost variance account	109,863	16,422
	6,914,235	3,653,994
Property, plant and equipment (note 6)	74,344,831	52,126,025
Revenue deficiency account (note 7)	17,168,273	10,314,141
Deferred charges (note 8)	278,942	377,565
	98,706,281	66,471,725
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 13)	13,977,495	6,170,866
Long-term debt (note 9)	48,280,964	35,637,698
	62,258,459	41,808,564
Shareholders' Equity		
Capital stock (note 10)	27,683,853	19,682,302
Retained earnings	8,763,969	4,980,859
	36,447,822	24,663,161
	98,706,281	66,471,725

Commitments (note 11)

See accompanying notes to the financial statements

Approved by the Board of Directors

Bishop Director

Director

Heritage Gas Limited

Consolidated Statement of Income and Retained Earnings

For the year ended December 31, 2007

	2007 $	2006 $
Revenue		
Natural gas sales and distribution revenue	11,443,695	5,664,868
Cost of natural gas sales	8,284,968	4,242,209
Gas distribution margin	3,158,727	1,422,659
Allowance for funds used during construction (note 6)	1,040,489	966,000
Revenue deficiency accrual (note 7)	6,854,132	4,908,695
Municipal tax	133,337	44,273
Other	40,179	22,155
	11,226,864	7,363,782
Expenses		
Operating and maintenance (note 6)	2,205,682	1,789,416
Amortization of deferred charges	110,400	100,800
Amortization of property, plant and equipment	1,368,987	904,454
Corporate capital tax	212,644	145,400
Interest expense (note 12)	3,412,704	2,039,746
Municipal tax expense	133,337	44,273
	7,443,754	5,024,089
Net income for the year	3,783,110	2,339,693
Retained earnings – Beginning of year	4,980,859	2,641,166
Retained earnings – End of year	8,763,969	4,980,859

See accompanying notes to the financial statements

Heritage Gas Limited

Consolidated Statement of Cash Flows

For the year ended December 31, 2007

	2007 $	2006 $
Cash provided by (used in)		
Operating activities		
Net income for the year	3,783,110	2,339,693
Charges (credits) to income not involving cash		
Allowance for funds used during construction	(1,040,489)	(966,000)
Amortization of deferred charges	110,400	100,800
Amortization of property, plant and equipment	1,368,987	904,454
Accrued interest accreted	220,166	-
Revenue deficiency accrual	(6,854,132)	(4,908,695)
	(2,411,958)	(2,529,748)
Net change in non-cash working capital balances (note 13)	(3,381,448)	(2,353,049)
	(5,793,406)	(4,882,797)
Investing activities		
Additions to property, plant and equipment	(14,984,301)	(14,786,116)
Increase in deferred charges	(11,777)	(176,535)
Acquisition of subsidiary (note 5)	(576,322)	-
	(15,572,400)	(14,962,651)
Financing activities		
Increase in shareholders' loans	14,453,449	12,191,294
Issuance of share capital	8,001,551	7,403,706
	22,455,000	19,595,000
Net change in cash during the year	1,089,194	(250,448)
Cash – Beginning of year	574,560	825,008
Cash – End of year	1,663,754	574,560

Supplementary cash flow information (note 13)

See accompanying notes to the financial statements

1 Status of the Company

Heritage Gas Limited (the Company) was incorporated on August 13, 2002 under The Canada Business Corporations Act.

The shareholders and their respective ownership interests are as follows:

SaskEnergy Nova Scotia Holdings Ltd.	50.1%
Silgascorp Inc.	25.0%
AltaGas Utility Holdings (Nova Scotia) Inc.	24.9%

On August 16, 2002, the Company applied for a full regulation class franchise for specific areas in Nova Scotia pursuant to The Gas Distribution Act (Nova Scotia). The Nova Scotia Utility and Review Board (NSUARB) awarded the Company the franchise to distribute natural gas to all or part of six counties in the Province of Nova Scotia on February 7, 2003 which the Company accepted on June 3, 2003. The franchise term is 25 years.

2 Basis of presentation

a) Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Cajun Holding & Development Company Limited, (together "the Company"). The purchase method has been used to account for the acquisition.

b) Changes in accounting policies

Effective January 1, 2007, the Company adopted the new CICA Handbook accounting requirements for Section 3855 "Financial Instruments – Recognition and Measurement", Section 3865 "Hedges", Section 3861 "Financial Instruments – Disclosure and Presentation", Section 1530 "Comprehensive Income", Section 3251 "Equity" and Section 1506 "Accounting Changes". In accordance with the transitional provisions for these new standards, these policies were adopted prospectively without restatement of prior periods.

i) Accounting changes

This Section prescribes the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. The adoption of this standard did not have a material impact on the consolidated financial statements of the Company.

2 Basis of presentation (continued)

b) Changes in accounting policies (continued)

ii) Financial instruments

Measurement and Presentation – The new standards require that all financial assets and liabilities are recorded at fair value, except loans and receivables and certain instruments held to maturity. Loans and receivables and certain instruments that are held to maturity are measured at amortized cost. For instruments measured at fair value, unrealized changes in fair value are recognized in earnings, unless the instrument is an available for sale asset or is designated and an effective cash flow hedging instrument, in which case the unrealized changes are recorded in Other Comprehensive Income.

The principal changes in the accounting for financial instruments due to the adoption of these accounting standards are described below:

> The Company has recorded an adjustment of $2,030,349 to the fair value of the loan with the Province of Nova Scotia and it will be accreted over the expected term of the loan (note 9); and
>
> The Company has recorded an offsetting entry of $2,030,349 as a reduction of property, plant and equipment and is being amortized on a straight-line basis using a 3% annual rate (note 6).

iii) Hedges

The new standard specifies the circumstances under which hedge accounting is permissible, how hedge accounting may be performed and where the impacts should be recorded. The standard introduces three specific types of hedging relationships: fair value hedges, cash flow hedges and hedges of a net investment in self-sustaining foreign operations.

The Company does not enter into hedges and these new standards have no implications on the financial statement for the current year.

iv) Comprehensive income and equity

The new standards also require the Company to present a Consolidated Statement of Comprehensive Income which consists of earnings, the effective portion of changes in unrealized gains and losses related to cash flow hedges and unrealized gains and losses available for sale assets.

The Company did not have any comprehensive income/loss for the year and a Consolidated Statement of Comprehensive Income has not been presented in these statements.

3 Significant accounting policies

a) Regulation

The Company is engaged in the distribution of natural gas in Nova Scotia and is regulated by the NSUARB. The regulations cover such matters as tariffs, rates, construction, operations, financing, and accounting. The Company's accounting policies conform to generally accepted accounting principles in the gas distribution industry and reflect the policies prescribed by the NSUARB. Rate regulation creates differences between the manner in which the Company accounts for transactions or events and how they would be accounted for if the Company was not subject to rate regulation. Differences in accounting treatment arise from adoption of the following rate regulated accounting practices:

- the use of a revenue deficiency account (note 3(d));
- recognizing an allowance for funds used during construction (note 3(l));
- using a gas cost variance account in the recovery of gas costs from customers (note 3(i));
- capitalizing certain operating and maintenance expenses (notes 3(j) and 6);
- using the taxes payable method and not accounting for future income taxes (note 3(k));
- amortizing property, plant and equipment (note 3(f)) differently from enterprises not subject to rate regulation; and
- deferring costs related to the regulatory hearings (notes 3(m) and 8).

b) Return on rate base

The Company is allowed the opportunity to earn a return on its rate base intended to provide its shareholders with a fair return on investment and to cover the cost of interest expense on debt. The Company's return on rate base is equal to the sum of (a) its net rate base multiplied by the allowed equity component percentage multiplied by the allowed rate of return on equity, plus (b) its net rate base multiplied by the allowed debt component percentage multiplied by the allowed regulatory rate for debt. The rate base is the aggregate of the Company's investment in plant, property and equipment, revenue deficiency account, inventory of supplies, prepaid expenses and deferred charges, less accumulated amortization, plus working capital. The net rate base excludes from the rate base no-cost capital, which consists of an interest free loan from the Province of Nova Scotia, which is described in note 9.

The Company's current regulated capital structure was approved by the NSUARB in 2003 and is set at 55% for debt and 45% for equity. The capital structure will remain unchanged until at least December 31, 2011. The rate of return on common equity was approved by the NSUARB in 2003, is set at 13% and the allowed regulatory rate for debt was approved by the NSUARB in 2003, is set at 8.75%. Both rates will remain unchanged until at least December 31, 2011.

3 Significant accounting policies (continued)

c) Regulatory process – delivery tariffs

The Company's delivery tariffs are determined through a General Tariff Application (GTA) process, which establishes the Company's revenue requirement and the rates to be charged to various customer classes for a specific test period. The Company seeks approval of its revenue requirement through an administrative hearing before the NSUARB. Factors affecting the Company's revenue requirement include forecasts for rate base, distribution and other revenue, operating costs, amortization, capital taxes, income taxes and return on rate base. The approved revenue requirement and subsequent approved rates are based on forecasts and actual results can differ from these forecasts. The most recent GTA process was completed in 2006 which established the Company's revenue requirement and rates to be charged to various customer classes for the period January 1, 2007 – December 31, 2011.

d) Revenue deficiency account (RDA)

The Company has approval from the NSUARB to use a RDA until it is fully recovered. The RDA is debited or credited based on the difference between the actual revenue billed and the weather normalized revenue required to earn the rates of return approved by the NSUARB. In the Company's customer development stage, it is expected that the actual revenue billed will be less than the revenue required to earn the approved rates of return and therefore a RDA asset will accumulate. As the distribution network matures, the actual revenue billed is expected to exceed the revenue required to earn the approved rates of return and, the RDA will be drawn down. The Company projects to fully recover its RDA by 2021.

e) Inventory of supplies

Inventory of supplies consists primarily of pipe and general materials for construction and maintenance and is recorded at average cost.

f) Property, plant and equipment

Property, plant and equipment are recorded at cost and include all costs of materials, labour and services to construct or purchase plus capitalized operating and maintenance expenses (note 3 (j)) and an allowance for funds used during construction (AFUDC) (note 3 (l)).

The capitalized expenses and AFUDC are capitalized and amortized at rates authorized by the NSUARB.

Amortization of property, plant and equipment is calculated on a straight-line basis by applying a fixed rate to the cost at the previous year-end, as approved by the NSUARB.

Franchise acquisition	4.00%
Mains and services	2.10% - 2.70%
Regulating and metering stations	2.56% - 4.18%
Meters	3.51%
Computer systems	20.00% - 33.00%
Vehicles and equipment	5.00% - 16.38%
Tools and furniture	5.00%
Leaseholds	Over the term of the lease

Certain additions to property, plant and equipment are made with the assistance of contributions in aid of construction. Contributions in aid of construction are offset against the corresponding asset balances and amortized at the same rate as the corresponding asset.

3 Significant accounting policies (continued)

f) Property, plant and equipment (continued)

The Company has not recorded an asset retirement obligation due to the indeterminate life of its distribution and supply network and corresponding indeterminable timing and scope of asset retirements.

g) Revenue recognition

Revenues include revenue from the distribution of natural gas and recovery of the Company's cost of gas paid to suppliers, and the associated gas supply costs. The Company recognizes revenues as earned when gas has been delivered or services have been performed. Gas distribution revenues are recorded on the basis of regular meter readings and estimates of customer usage from the date of the last meter reading to the end of the reporting period The Company's operations are subject to regulation and, accordingly, revenue is recognized in a manner that is consistent with the underlying rate-setting mechanism as mandated by the NSUARB. The Company's delivery tariff is designed to recover the Company's total cost of delivery and an approved return on equity.

h) Cost of natural gas sales

Cost of natural gas sales is the cost of gas purchased for resale to customers. Charges for gas delivered are based on the forecast cost of natural gas and variances between the forecast cost and the actual cost of natural gas are deferred for refund to, or collection from, customers in subsequent periods.

i) Gas cost variance account (GCVA)

GCVA is the difference between the cost to purchase natural gas and the current rate charged to customers. The GCVA balance is recovered from or refunded to customers through adjustments to future charges.

j) Capitalized expenses

The NSUARB has approved in its decision rendered on December 21, 2006, that the Company can continue to capitalize certain operating and maintenance expenses to 2011. If the Company was not subject to rate regulation, certain of these amounts would not be capitalized. The following table identifies the rates at which operating and maintenance expenses were capitalized during the year:

	2007	2006
Executive, operations, human resources, finance and administration, and overhead	- %	25%
Marketing, engineering, construction, and regulatory and public affairs	100%	100%

3 Significant accounting policies (continued)

k) Income taxes

Income taxes are provided by the Company using the taxes payable method as approved by the NSUARB and as such, no future income taxes are recognized in the financial statements. The Company is a rate-regulated enterprise and all future income taxes are expected to be recovered in the rates charged to customers in the future. Non-rate regulated companies would account for income taxes on the liability method and record future income tax asset or liability less a valuation provision if realization of the assets is not considered more likely than not.

l) Allowance for funds used during construction (AFUDC)

In accordance with accounting policies approved by the NSUARB, the Company capitalizes an imputed carrying cost on assets under construction at a rate approved by the NSUARB. This amount capitalized is disclosed on the income statement as AFUDC. AFUDC is the amount that a rate-regulated enterprise is allowed to earn to recover its cost of financing assets under construction. It is calculated at the Company's mid-month cost of construction work-in-progress multiplied by the Company's regulated weighted average cost of capital percentage. AFUDC is included in the cost of the related assets and recovered in future periods through amortization charges. Non-rate regulated companies generally capitalize interest on debts during construction of assets based on their actual cost of debt financing.

m) Deferred charges

Costs incurred by the Company related to its regulatory proceedings are deferred and amortized on a straight-line basis over a period as approved by the NSUARB.

n) Management estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the reporting period. Actual results may differ from those estimates.

o) Future accounting changes

i) Section 1535 "Capital Disclosures"

Effective for interim and annual financial statements for fiscal years beginning on or after October 1, 2007, the new CICA Handbook Section 1535 "Capital Disclosures" requires the disclosure of qualitative and quantitative information about the Company's objectives, policies and processes for managing capital. This new section is effective for the Company beginning January 1, 2008.

3 Significant accounting policies (continued)

o) Future accounting changes (continued)

ii) Section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentation"

Effective for annual financial statements beginning January 1, 2008, the new CICA Handbook Sections 3862 and 3863 will replace Section 3861 to prescribe the requirements for presentation and disclosure of financial instruments. The objective of Section 3862 is to provide users with information to evaluate the significance of the financial instruments on the entity's financial position and performance, the nature and extent of risks arising from financial instruments, and how the entity manages those risks. The provisions of Section 3863 deal with the classification of financial instruments, related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset.

iii) Sections 1100 "Generally Accepted Accounting Principles" and 3465 "Income Taxes"

Effective for fiscal years beginning on or after January 1, 2009, the Accounting Standards Board released a number of amendments to the CICA Handbook that impacts rate regulated enterprises. A temporary exemption pertaining to the application of Section 1100, Generally Accepted Accounting Principles, to the recognition and measurement of assets and liabilities arising from rate regulation has been removed. Also, rate regulated enterprises will be required to recognize future income tax liabilities and assets, as well as a regulatory asset or liability for the amount of future income taxes expected to be included in future rates and recovered from or returned to future customers and to present these amounts on a gross basis in the financial statements.

4 Revolving demand facility

The Company has a $1,000,000 revolving demand facility with a Canadian chartered bank, bearing interest at bank prime plus 1%, which is secured by a General Security Agreement over all personal property of the Company.

5 Business acquisition

On October 23, 2007, the Company acquired 100% of the issued and outstanding shares of Cajun Holding & Development Company Limited for $576,322. The purchase method has been used to account for the acquisition, totally comprised of land, and the purchase price was allocated to property, plant and equipment (mains and services) as this was the only net asset of the subsidiary.

6 Property, plant and equipment

The Company's natural gas distribution network is comprised of mains, service lines and measuring and regulating equipment and facilities.

			2007	**2006**
	Cost **$**	**Accumulated amortization** **$**	**Net book value** **$**	**Net book value** **$**
Franchise acquisition	3,328,676	533,135	2,795,541	2,928,688
Mains and services (notes 2(b)(ii) and 5)	70,070,507	1,556,209	68,514,298	46,331,323
Regulating and metering stations	737,999	226,954	511,045	631,792
Meters	1,503,649	41,031	1,462,618	1,094,254
Computer systems	459,036	320,071	138,965	182,249
Vehicles and equipment	696,771	125,552	571,219	571,469
Tools, furniture and leaseholds	477,373	126,228	351,145	386,250
	77,274,011	2,929,180	74,344,831	52,126,025

In 2004, the Company constructed assets under a contract to service a large customer. These assets have been recorded as property, plant and equipment and at December 31, 2005, the customer had not activated the assets to supply other customers and, pursuant to a decision issued by the NSUARB on December 21, 2006, included a portion of the asset cost ($250,000) in rate base and the relevant amortization and operating costs in rates. Discussions continue with the large customer to fully utilize the assets, and the Company continues to explore alternative uses of these assets and is confident that these assets will be fully utilized and included in rate base in the foreseeable future. Based on projected cash flows, management does not consider the current value of the assets to be impaired. However, significant changes in results from those assumed in the current business plan could impact the estimated cash flows and should the economic values of these assets be determined to be impaired, a reduction in the book value of these assets could be material to income. The assets which have not been put into service are not being amortized.

The Company has recorded $1,040,489 (2006 - $966,000) in AFUDC.

The Company has capitalized $2,973,474 (2006 - $2,590,494) of operating and maintenance expenses during the year. The effect of capitalizing operating expenses was to decrease expenses and increase property, plant and equipment.

Included in mains and services is work-in-progress in the amount of $6,824,201 for the year ended December 31, 2007 (2006 - $6,450,452). Depreciation of work-in-progress begins the year after the plant is brought into active service, as approved by the NSUARB.

The Company has recorded an entry of $2,030,349 as government assistance (note 2 (b) (ii)) which has been applied as a reduction of property, plant and equipment (mains and services) and is being amortized on a straight-line basis using a 3% annual rate, being the average life of the distribution assets to which the government assistance related.

7 Revenue deficiency account (RDA)

	2007 $	2006 $
Beginning of year	10,314,141	5,405,446
Revenue deficiency accrued during the year	6,854,132	4,908,695
End of year	17,168,273	10,314,141

The effect of accruing this revenue was to increase revenue and increase the RDA.

8 Deferred charges

Deferred charges include third party and regulatory costs incurred by the Company related to its regulatory proceedings. These charges are deferred as incurred and amortized on a straight-line basis over a period as approved by the NSUARB.

	2007 $	2006 $
Deferred charges	692,006	680,229
Accumulated amortization	(413,064)	(302,664)
	278,942	377,565

9 Long-term debt

	2007 $	2006 $
Shareholders' loans		
SaskEnergy Nova Scotia Holdings Ltd.	22,290,065	15,048,885
Silgascorp Inc.	11,122,786	7,509,429
AltaGas Utility Holdings (Nova Scotia) Inc.	11,078,296	7,479,384
	44,491,147	30,037,698
Province of Nova Scotia		
Province of Nova Scotia loan – face value	5,600,000	5,600,000
Less: Fair market value adjustment, net of accumulated interest accreted of $220,166 (note 2(b)(ii))	(1,810,183)	-
Amortized balance	3,789,817	5,600,000
	48,280,964	35,637,698

9 Long-term debt (continued)

Shareholders' loans are unsecured and carry an NSUARB approved interest rate of 8.75% with interest paid quarterly. All loans are to be repaid in full on December 31, 2009. During the year, interest recorded on shareholders' loans was $3,207,953 (2006 - $2,031,251).

During 2005, the Company received $7.6 million from the Province of Nova Scotia. As prescribed capital investments targets were achieved by December 31, 2006, $2.0 million of the loan was forgiven in 2007. The Company has recorded the $2.0 million as a reduction of property, plant and equipment.

The Province of Nova Scotia loan is non-interest bearing. If certain prescribed revenue targets are achieved, interest will accumulate on a prospective basis at a rate of 6%. The Province of Nova Scotia loan is guaranteed on a proportionate basis of ownership by the shareholder companies. On or before July 1, 2011, the Company must elect to either repay the loan in one lump sum payment on July 31, 2014, or in five equal annual instalments, beginning on July 31, 2012. The Company may also elect to fully repay the loan at any time with no penalty.

A fair market value adjustment of $2,030,349 has been calculated and recorded against the Company's long-term debt with the Province of Nova Scotia. The Company used the interest method to calculate the amortized cost of the financial liability and to allocate the interest expense over the relevant term of the financial liability. The Company used an effective interest rate of 6% to discount the estimated cash flows associated with this financial instrument over the expected term of the instrument. The Company has recorded the fair market value adjustment to the face value of the Province of Nova Scotia loan and the adjustment will be accreted over the expected term of the loan.

10 Capital stock

Authorized

Unlimited number of common shares without nominal or par value

	Shares	$
Issued and fully paid		
December 31, 2005	12,278,596	12,278,596
Issued during 2006 for cash	7,403,706	7,403,706
December 31, 2006	19,682,302	19,682,302
Issued during 2007 for cash	8,001,551	8,001,551
December 31, 2007	27,683,853	27,683,853

11 Commitments

Future minimum lease payments for the next four years under operating leases for office space and office equipment are estimated as follows:

	$
Year ending December 31, 2008	224,379
2009	198,441
2010	20,227
2011	541

12 Interest expense

	2007 $	2006 $
Interest expense on shareholders' loans	3,207,953	2,031,251
Interest accreted (note 9)	220,166	-
Guarantee fees paid to shareholders	38,000	51,222
Interest income net of bank charges	(53,415)	(42,727)
	3,412,704	2,039,746

13 Supplementary cash flow information

	2007 $	2006 $
a) Net change in non-cash working capital		
Accounts receivable	(1,971,443)	(1,119,013)
Inventory of supplies	(91,401)	12,477
Prepaid expenses	(14,762)	(52,043)
GCVA	(93,441)	12,769
Accounts payable and accrued liabilities	(1,210,401)	(1,207,239)
	(3,381,448)	(2,353,049)
b) Interest paid during the year	2,905,031	1,760,794
c) Non-cash transactions		
Additions to property, plant and equipment included in accounts payable and accrued liabilities	9,017,030	3,645,439

14 Financial instruments

The carrying values of the Company's financial instruments (accounts receivable, inventory of supplies, prepaid expenses, accounts payable and accrued liabilities and long-term debt) approximate fair value.

15 Related party transactions

Related party transactions with the Company's shareholders are recorded at their exchange amount which is considered to be at fair value. Related party transactions and balances were as follows:

	2007 **$**	**2006** **$**
Operating and maintenance expenses	136,793	155,136
Interest expense	3,207,953	2,031,251
Guarantee fees	38,000	51,222
Accounts payable	155,759	179,893
Interest payable	931,580	628,657
Guarantee fees payable	9,500	12,806

16 Income taxes

As at December 31, 2007, the Company has approximately $23,986,000 in income tax loss carryforwards available to reduce future income taxes. These loss carryforwards expire as follows:

	$
Year ending December 31, 2010	1,218,000
2014	4,173,000
2015	3,963,000
2026	7,018,000
2027	7,614,000

As of December 31, 2006, the unrecorded future income tax assets of the Company are approximately $2,489,000 (2006 - $1,817,000).

17 Subsequent event

On January 7, 2008, the shareholders advanced an additional $3,372,793 to purchase common shares and $4,127,207 in the form of shareholders' loans.

18 Comparative figures

Certain comparative figures have been reclassified to conform to the current financial statement presentation.